The Standard

THE STANDARD STEAMSHIP OWNERS' PROTECTION AND INDEMNITY ASSOCIATION (BERMUDA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

2012

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2012

The Standard

Chairman's Statement and Key Facts

The Directors

Report of the Directors

Independent Auditors' Report

Financial Statements

Other Information

Financial Highlights 2012

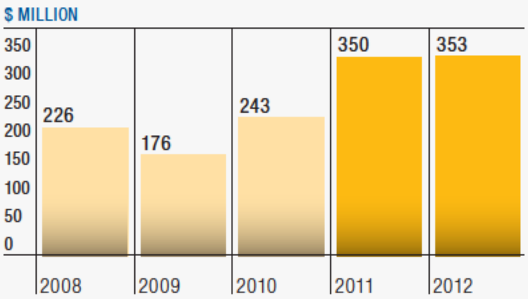
1

	2012 US$m	Restated 2011 US$m
RESULTS FOR THE FINANCIAL YEAR ENDED 20 FEBRUARY 2012		
Calls and premiums net of reinsurance	221	210
Total claims net of reinsurance and operating expenses	(265)	(192)
Balance of technical account for general business	(44)	18
Net investment income	47	59
Excess of income over expenditure for the year	3	77
OUTSTANDING CLAIMS LIABILITIES		
Estimated known outstanding claims net of all recoveries	351	324
Incurred but not reported claims (IBNR)	172	136
Total estimated claims liabilities	523	460
FUNDS AVAILABLE FOR CLAIMS		
Open policy years	275	232
Closed policy years	248	228
Free reserves	353	350
Total balance sheet funds	876	810

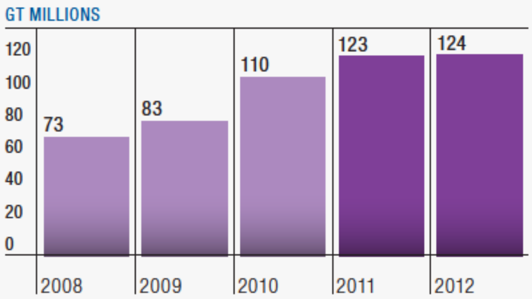
The Club at a Glance

2011 figures are restated to take into account the reorganisation of the Standard Clubs.

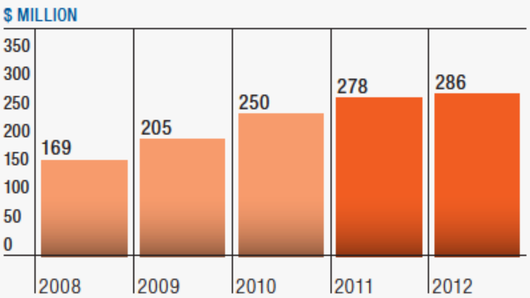
FREE RESERVES



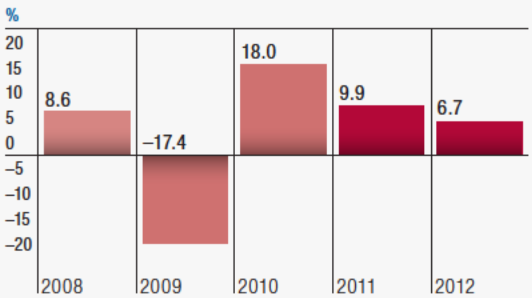
TONNAGE



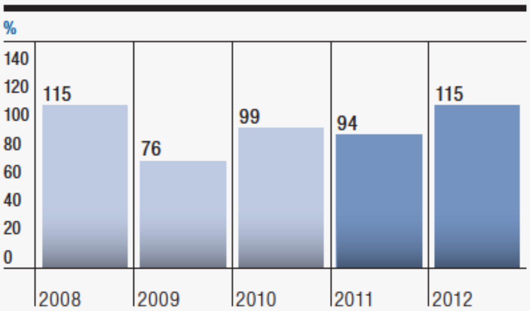
PREMIUM INCOME



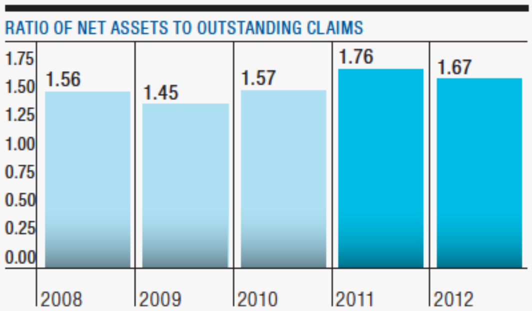
INVESTMENT RETURN



COMBINED RATIO



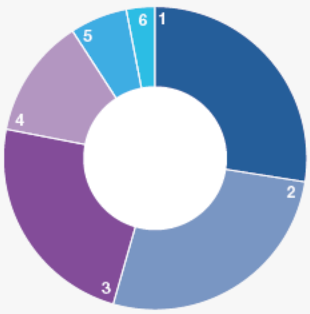
CLAIMS COVER



SHIP TYPES ENTERED

OWNED TONNAGE

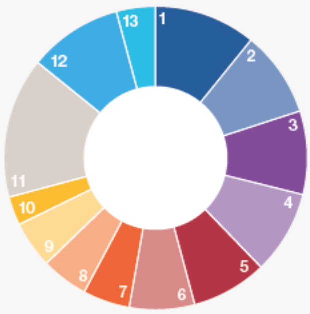
1	Tankers	28%
2	Container & general cargo	27%
3	Dry bulk	24%
4	Offshore	13%
5	Passenger & ferry	6%
6	Other	3%



COUNTRY OF MANAGEMENT

OWNED TONNAGE

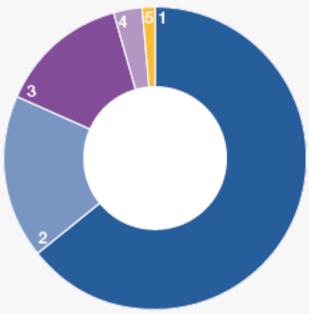
1	Greece	11%
2	USA	9%
3	Italy	9%
4	Germany	9%
5	Japan	8%
6	Canada	7%
7	United Kingdom	5%
8	Republic of Korea	5%
9	Singapore	5%
10	Switzerland	3%
11	Rest of Europe	15%
12	Rest of World	10%
13	Rest of Asia	4%



ASSET ALLOCATION

As at 20 February 2012

1	Bonds	64.4%
2	Equities	17.3%
3	Cash	14.0%
4	Alternatives	3.0%
5	Gold	1.3%



Chairman's Statement

Ricardo Menendez Ross

Chairman

This has been both an eventful year and one of consolidation. I can report that your club remains very well placed to continue to provide members with the service and security that they need. Although the underwriting has been challenging, we are reporting another overall surplus, so that the financial security that the club provides to its members is stronger than ever.

There has been consolidation in two quite different ways – the reorganisation of the Standard Clubs into a more efficient group, and a period of relative stability after several years of high growth in the volume of business insured.

The reorganisation was a major project that went through smoothly and has achieved greater efficiency within the structure of the Standard Clubs for the benefit of all of the members. From having previously had five insuring companies within the Standard family, four of them regulated in the UK, and one reinsurance company, we now have just two insuring companies, one in the UK and one in Singapore, with one group reinsurance entity and one overall holding company. This structure will help to achieve better capital utilisation and contain compliance costs. The reorganisation, which has merged various entities that were previously legally separate, means that our accounts this year look a little different from before, as well as presenting higher overall figures than was previously the case.

After a period of rapid growth in tonnage, we are reporting only a modest year-on-year increase in the club's size this year. This reflects the fact that while growth was strong during the year, we reduced tonnage at renewal as a result of a policy of ensuring that the quality of the tonnage entered in the club is maintained and that all members contribute adequate premiums to reflect risk and record.

While firmly committed to the club's core purpose of providing sustainable good-value P&I insurance, the board also believes that the club should grow its service offering to include other covers that sit comfortably alongside P&I. We are considering various options and expect to offer a wider range of services shortly. One of the issues currently under examination in our industry is whether or not the clubs should cover P&I claims caused by war risks as well as those caused by non-war events. Our view is that the clubs are best placed to provide this cover and that this would work in the long term to contain shipowners' costs.

This has been a notable year for claims. Last year, we reported our biggest ever claim. This year again we have had a claim that is almost certain to become our biggest ever claim to date. The *Costa Concordia* was insured by our club, jointly with another P&I club, and looks set to cost the club, the International Group and the IG's reinsurers several hundreds of millions of dollars. The incident, which tragically took the lives of 32 passengers and crew, is likely to result in the most complex wreck removal operation ever undertaken.

It is worth mentioning that even if the *Costa Concordia* will cost the insurance market as a whole an unprecedented amount of money, the financial impact for our club is limited only to our retention, plus, as for all clubs, our share of the Pool and that of the first reinsurance layer, demonstrating how well risks are distributed in the P&I system.

Once again, we had an excellent investment result with a return of around 6.7% in very challenging investment conditions. Notwithstanding this good result, achieved against a relatively conservative benchmark and investment policy, we are reviewing the overall asset allocation policy to ensure that the balance of risk, reward and capital cost is appropriate.

As I have mentioned above, the underwriting environment remains challenging, and this led us to seek a general increase of 5% in members' premiums at the latest renewal at a time of great stress in the shipping industry. We achieved that increase and I am grateful for the support shown for the club by its members. It is too early to predict with any certainty how this year will perform as claims typically take 18 to 24 months from the start of a policy year to develop sufficiently to gauge the final outcome with any accuracy. However, our modelling suggests that in spite of the increase in premium achieved we may still not reach an underwriting break-even in the current year.

Work has continued intensively to prepare the club for Solvency II. This remains a challenge for all insurers with EU operations and there is a considerable amount of work involved in satisfying the extensive documentary requirements to prove regulatory compliance. The reorganisation of the Standard Clubs was largely designed to contain the burden of regulatory compliance, which it has done, and to ensure that the club's capital, held across the different entities within the Standard group, is utilised as effectively as possible.

During the year John Rowe retired from the board and the club management and I would like to thank him for his contribution to the club's affairs, and we were pleased to welcome to the board Daniel Ofer, Gunther Jaegers and David Marock.


The
Directors
2

The Directors

Directors who served since the date of the last report and financial statements:

R Menendez Ross[1,2,3,4]
President and Chairman
Ultrapetrol SA

The Hon. Sir John W Swan KBE JP
Vice-President
Bermuda

R M Jones[1,3,4]
Deputy Chairman
CSL Group Inc

C Peraticos[2,3]
Deputy Chairman
Pleiades Shipping Agents SA

N Aksoy
Turkish Cargo Lines, Akmar Shipping Group

L D'Amato
Fratelli D'Amato SpA

C d'Amico[2]
D'Amico Societa di Navigazione SpA

A Bensler
Teekay Corporation

G Bozzini
Saipem SpA

R Clarke[1]
British Columbia Ferry Services, Inc

P Clerici
Coeclerici SpA

M J Cox[1,3]
Matson Navigation Co Inc

J N Das
The Shipping Corporation of India Ltd

G Jaegers
Reederei Jaegers GmbH
(Appointed 10 May 2012)

B Harinsuit[2,4]
Harinsuit Transportation Co; Ltd

E L Johnsen[1]
International Shipholding Corporation

D C C Koo[1,4]
Valles Steamship Co Ltd

A J Mace
SBM Offshore NV
(Appointed 13 May 2011
Resigned 2 January 2012)

A Martinos
Minerva Marine Inc

D Ofer
Zodiac Maritime Agencies Ltd
(Appointed 4 November 2011)

J B Rae-Smith
Swire Pacific Offshore Ltd

J F Reinhart[2]
Maersk Line, Limited

S S Teo[4]
Pacific International Lines (Pte) Ltd

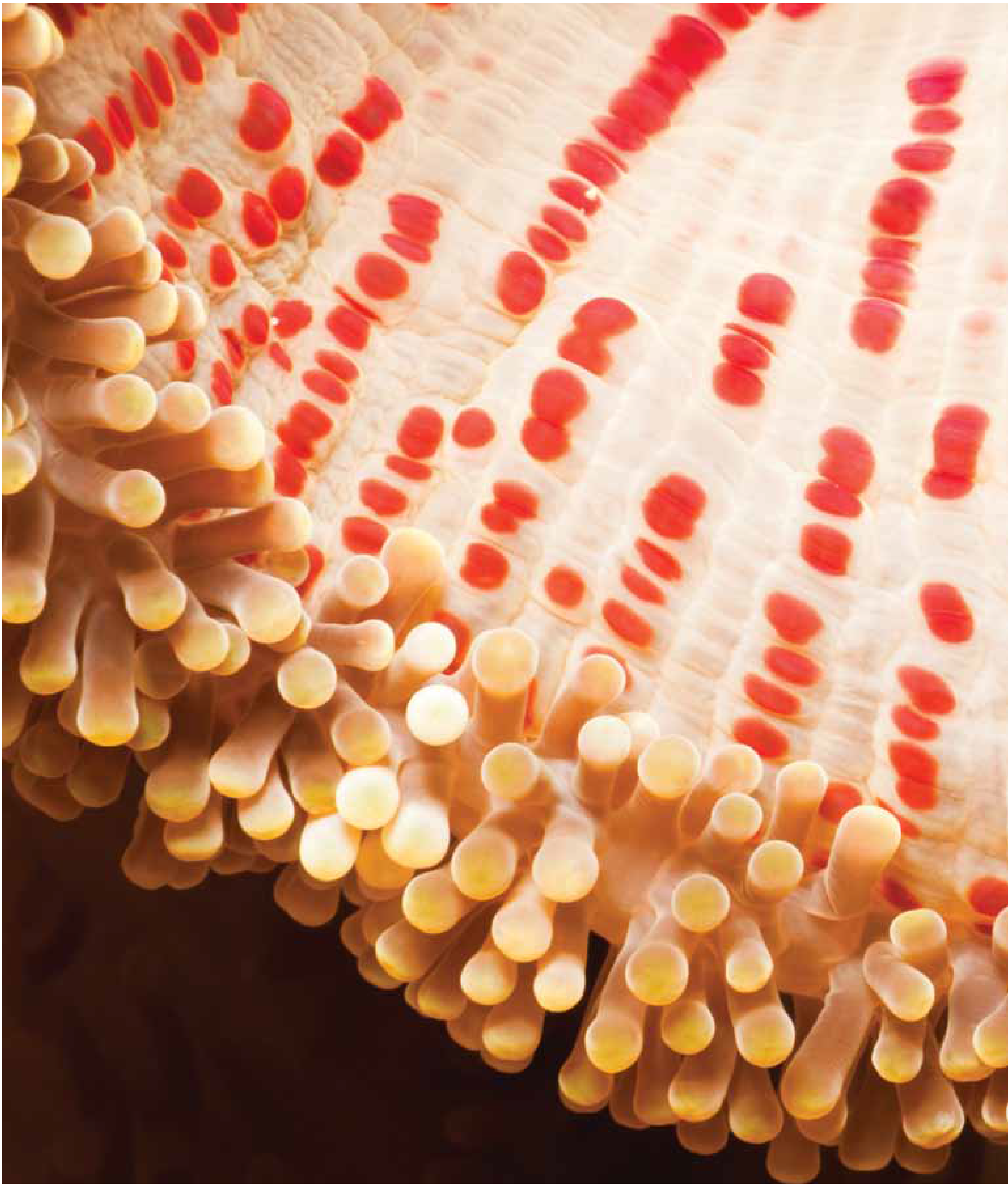
W D Thomson[1]
Bermuda

A J Groom[2,3]
Manager

J S M Rowe
Manager
(Resigned 30 June 2011)

D G Marock[3]
Manager
(Appointed 1 January 2012)

1 Member of Audit and Risk Committee
2 Member of Nomination and Governance Committee
3 Director of Standard Europe
4 Director of Standard Asia



Report of the Directors

3

The directors have pleasure in presenting the financial statements of the club for the year ended 20 February 2012.

PRINCIPAL ACTIVITIES

The principal activity of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited was to act as a holding company for subsidiaries and the insurance and reinsurance of marine protection & indemnity (P&I) and related risks, war risks, and defence risks, on behalf of the members. At 20 February 2012, there were approximately 124m gross tons of shipping entered in the club.

DIRECTORS

Since the last report and up to the date of signing the financial statements, the directors of the club who were in office are shown on page 7 of this report. The board was pleased to welcome G Jaegers, D Marock and D Ofer to the board. As directors appointed during the year, they offer themselves for re-election at the AGM. The directors who retire by rotation in accordance with the bye-laws and who, being eligible, have also offered themselves for re-election, are N Aksoy, C D'Amico, G Bozzini, P Clerici, J N Das, E L Johnsen, D C C Koo and J B Rae-Smith.

During the year, A J Mace joined and retired and J Rowe retired from the board.

MEETINGS OF THE BOARD

Since the date of the last report, the board met on four occasions: on 12 September 2011 in Miami, on 4 November 2011 in Buenos Aires, on 23 January 2012 in Geneva and on 10 May 2012 in Bermuda. The board reviewed the club's strategy, risks, financial and underwriting performance, significant claims, new members admitted to the club, new ships attaching, reinsurance arrangements, regulatory and tax matters, industry developments, control and governance matters, and investment strategy and results. The principal issues discussed by the board, and the decisions reached, are set out in this report.

The Audit and Risk Committee and Nomination and Governance Committee both met on three occasions since the date of the last report. A Solvency II working group of the Audit and Risk Committee was also formed to monitor the club's progress on becoming Solvency II compliant. The chairman's group, consisting of the chairman and deputy chairmen, has also held regular discussions with the managers during the year to monitor the club's performance between board meetings.

THE STANDARD FAMILY OF CLUBS AND REORGANISATION

We advised members last year that the increasing regulatory demands and the desire for efficient capital management had caused the boards of the various members of the Standard family of clubs to review the existing structure of the group and to consider a reorganisation of it. The purpose of the reorganisation was to streamline operations, improve capital efficiency and reduce compliance costs. The reorganisation proposals were approved during the year by the boards and memberships of each of the Standard Clubs. Pursuant to Part VII of the Financial Services and Markets Act 2000, an order was made by the High Court of England and Wales on 19 December 2011 approving the reorganisation with an effective date of 30 December 2011.

From 30 December 2011, the insurance businesses of The Standard Steamship Owners' Protection and Indemnity Association (London) Limited ('Standard London') and The Standard Steamship Owners' Mutual War Risks Association Limited ('Standard War Risks') and the insurance business of the UK branch of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited ('Standard Bermuda') were transferred to The Standard Steamship Owners' Protection and Indemnity Association (Europe) Limited ('Standard Europe'). Members previously insured by Standard Bermuda, Standard London and Standard War Risks have been insured by Standard Europe from the effective date. Standard Asia was not affected by these changes and will continue to provide P&I and Defence cover to the Standard's Asia-Pacific members.

The comparative financial figures for the previous year for the consolidated group have been restated as if the business had already been transferred. The impact of the transfer on the brought forward reserves and surplus for the year of the group is recorded in note 11 to these financial statements.

As the final step of the reorganisation, the Standard family of clubs will be renaming and rebranding during the summer of 2012. Subject to member approval, Standard Bermuda will be renamed to The Standard Club Ltd.

SUMMARY FINANCIAL RESULTS AND BALANCE SHEET

As set out in the income and expenditure account, there is a surplus of income over expenditure of $3m (2011: $77m). Total reserves available for claims stand at $876m (2011: $810m). The amount set aside to meet outstanding claims and IBNR was $523m at 20 February 2012 (2011: $460m).

INCOME AND EXPENDITURE ACCOUNT

Revenue from calls, premiums and releases amounted to $286m (2011: $278m). Paid claims, net of reinsurance recoveries were $178m (2011: $144m). Pool and reinsurance recoveries amounted to $108m (2011: $37m).

AVERAGE EXPENSE RATIO

The average expense ratio for the club's P&I class for the five years ended 20 February 2012 is 13.4% (2011: 13.3%). The ratio has been calculated in accordance with the Schedule and Guidelines issued by the International Group pursuant to the International Group Agreement and is consistent with the relevant financial statements. The ratio expresses the club's expenses as a percentage of its total income. Although members' brokerage is not an expense of the club, for the sake of consistency, the ratio includes members' brokerage fees paid by members to their brokers through the agency of the club.

APPENDICES TO THE REPORT – P&I CLASS

The appendices to the report set out details of the open policy years together with the closed policy year balances. The board closed the 2009/10 policy year at its meeting on 10 May 2012 on the basis of the financial position at 20 February 2012. The total open policy year balance at 20 February 2012 amounted to $251m after closure of the 2009/10 policy year. Included in this balance are estimated reinsurance recoveries of $268m. The estimate of net outstanding claims liabilities for the closed years amounted to $232m (including liabilities for the 2009/10 policy year).

FREE RESERVES

These represent the surpluses built up out of open and closed policy years and represent the core capital of the club. The club's free reserves increased to $353m at the year end (2011: $350m). This increase reflected a good investment return offset by an underwriting deficit.

The board reviewed the strategic purposes and appropriate level for the free reserves and agreed the level of free reserves or capital to be held should be sufficient to meet the following criteria:

1. To ensure that the club has sufficient capital to reflect its business risks and to comply with regulatory requirements.
2. To provide a sufficient buffer so as to make the probability of supplementary calls very low, and unnecessary in any phase of a normal underwriting cycle, and so that they are levied only in extreme stressed scenarios.
3. To ensure that the club is perceived as being in the top division of clubs from a financial perspective, in order to give the club flexibility and the power to maintain pricing and quality discipline.
4. To maintain an S&P or similar rating of A or above.

Consistent with these criteria, it is the board's intention that the free reserves be available to be used for a number of purposes, including absorbing the impact of financial risks, deterioration beyond the IBNR allowed for in closed years, contributing towards catastrophe claims and smoothing out the financial performance between policy years.

The board recognises the need to ensure that the free reserves reflect the club's size. Both the tonnage and the free reserves have only increased modestly this year. The reserves are within the target strategic range set by the board, and the board will ensure that the free reserves continue to be aligned with the volume of, and risks in, the club's business.

KEY PERFORMANCE INDICATORS

The board monitors the progress of the club by reference to the following KPIs:

KEY PERFORMANCE INDICATORS

	2012	2011
Tonnage gt m	124	123
Gross premium $m	286	278
Free reserves $m	353	350
Claims cover[1]	1.67	1.76
Combined ratio[2] %	115	94
Investment return[3] %	6.7	9.9

1 Ratio of net assets to outstanding claims
2 The ratio of total expenditure to total income, as set out in the technical account/general business section of the income and expenditure account. A ratio below 100% indicates an underwriting surplus
3 Return for 12 months to end of February

FUTURE OUTLOOK

The club's financial position means that it is satisfactorily positioned to continue to offer the full range of P&I, war risks, defence and related covers to its members, albeit that it is still facing challenging underwriting conditions.

STRATEGY AND BUSINESS PLAN

During the year, the board constituted a working group which met three times to review certain aspects of the club's future strategy. This working group considered the club's approach to growth and quality and the covers and services that the club should offer. The working group and the board concluded that the club should continue to seek growth in its core business areas, and should examine opportunities to extend the range of products offered, provided that this does not undermine the solid financial attributes of the club, and that any development is consistent with the club's existing emphasis on the quality of its members' operations and with the high standard of service provided to them. The working group reported to the board in November 2011 and January 2012 when the club's business plan was updated and approved, and again in May 2012.

Principal Risks and Uncertainties

The club's principal risks and uncertainties are recorded in the club's risk, audit and compliance system, under the headings described below. How those risks impact the club is also described in that system. The board has reviewed its risk appetite which provides clear guidance on the club's exposure, and the club's risk management framework ensures that:

- risks are appropriately evaluated and reflected in the club's business planning
- risk assessments are regularly reviewed
- the business operates within risk appetite.

INSURANCE RISK

The risk of losses arising from inappropriate underwriting, inadequate pricing or reserve deterioration.

Underwriting risk:

The club is exposed to insurance risk from underwriting inappropriate business or appropriate business in an inappropriate way or with incorrect pricing. This is managed by clear underwriting controls and monitoring for undue concentrations of risk, consistent with risk appetite. It is also mitigated by a dedicated risk management, safety and loss prevention function, aimed at ensuring that the club underwrites only those shipowners who operate to an acceptable standard, as well as encouraging good risk management by members.

Reserve risk:

Reserve risk is managed by prompt reserving of potential losses and regular reviews of individual estimates and overall reserve adequacy by the club's actuarial function, as well as regular, systematic claims audits and monitoring of claims handling to ensure consistency of approach.

Reinsurance risk:

Underwriting risk is mitigated by appropriate reinsurance programmes, including the International Group pooling and reinsurance programme and also the club's own non-Pool and retention reinsurance.

Reinsurance strategy is set by the board in line with the board's risk appetite and is designed to mitigate the insurance risk through programmes tailored to the club's exposures.

FINANCIAL RISK

Credit risk:

The risk of a loss occurring owing to the failure of a counterparty to meet its contractual debt obligations.

Counterparties include members, reinsurers, other International Group clubs, intermediaries, banks and investment counterparties. The risk of default is mitigated by:

- using only well-rated reinsurers and monitoring their financial condition
- Pooling Agreement provisions which provide security for inter-club obligations
- prompt follow-up of outstanding member premiums and suspension or cancellation of cover
- clear investment rules and counterparty limits
- payment controls

The club sets appropriate counterparty limits to control this risk.

Market risk:

The risk of loss occurring from fluctuations in the value or income from investments, including the effects of fluctuations in interest and exchange rates.

The club's investment strategy has been developed with the following objectives:

(i) to preserve capital for the payment of the club's claims and other liabilities by limiting the risk in the portfolio as agreed from time to time by the board
(ii) to maximise the overall returns as measured over rolling three-year periods within the risk tolerance agreed by the board.

There are clear and regularly-reviewed investment rules, and the club manages its investment risk through investing widely and in different asset classes to diversify the overall portfolio, and so to produce reasonable returns with acceptable volatility. Currency of investment is benchmarked to the profile of liabilities to which the club is exposed. Interest rate risk exposure is measured and controlled through regular consideration of the appropriate duration of the fixed interest part of the portfolio. The club is exposed to equity price fluctuation risk but the investment rules limit equity exposure.

The investment asset and currency benchmarks are modified from time to time to reflect the board's reassessment of market risk appetite, as informed by their assessment of the investment markets as well as by risk appetite and regulatory considerations.

The club makes use of forward currency contracts to hedge its exposure to fluctuations in the value of non-core currencies, and to maintain the matching of the investment profile to the liability profile.

Liquidity risk:

The risk arising from insufficient financial resources being available to meet liabilities as they fall due.

The club continuously monitors its cash and investments to ensure that the club meets its liquidity requirements. Adequate cash holdings are maintained at all times and the club's asset allocation strategy is designed in part to enable the ready availability of funds to meet insurance liabilities as they fall due. The club reviews the time period required to liquidate the investment portfolio. The likely cash outflows in relation to specific large claims are projected and kept under review. Significant gross claim settlements through the International Group Pool and reinsurance arrangements are subject to special settlement provisions that restrict the exposure to the club to funding large claims that are subject to reinsurance recoveries.

Detailed risk disclosures for credit, market and liquidity risk are set out in detail in note 15 to the financial statements, starting on page 55.

OPERATIONAL RISK

The risk resulting from external events, from the failure or inadequacy of internal processes, systems or controls, other than those identified above, or people or reputational risk and regulatory risk.

The club has identified its operational risks and has in place appropriate controls to manage and mitigate such risks, consistent with good practice, regulatory guidance and legislation relating to human resources, financial crime, business continuity and information security. As the club employs independent third-party managers to manage its day-to-day activities, appropriate controls are also in place to monitor the club's outsourcing of its operations.

EMERGING RISKS

New and developing risks.

The club monitors emerging risks, including, for example, sanctions, piracy, the Eurozone crisis and changes in regulation. These are also monitored through regular discussion at board and these management meetings.

Corporate Governance

The club comprises members from the international shipping community and seeks to follow good governance principles that would be generally recognised throughout world markets.

The club and its subsidiaries are regulated in Bermuda, the UK, Singapore and Australia as insurance operations, and the club has had particular regard for the requirements of these countries in arriving at its current practices.

BOARD RESPONSIBILITIES

The board's governance of the club is set out in the board governance policies statement. This sets out, amongst other things, the board's role and matters reserved for the board, and the board's duties, composition and operation. The principal functions of the board include to:

- govern and direct the club's affairs
- ensure that the club's objects are being fulfilled
- set overall strategy and key policies
- set and review the club's risk appetite
- oversee risk management and compliance issues
- ensure that there is a suitable and clear allocation of responsibility between itself and the managers
- satisfy itself that the managers have an appropriate structure for the management of the club
- direct and supervise the managers and consider their reports on all significant aspects of the club's affairs
- ensure that there are suitable systems of control.

At each board meeting, the directors are provided with up-to-date reports on the key financial indicators for the club, and on risk, controls, underwriting, claims, investment and general policy issues. The directors are provided with board meeting papers in sufficient time before each board meeting to enable them to have adequate time to understand the relevant issues and to focus upon decisions that need to be made.

The board has delegated to the managers the implementation of the board's strategy and policies, and management of the day-to-day operations. A formal management agreement between the club and the managers sets out their respective obligations and responsibilities. In addition, there is a service level agreement against which the board reviews the performance of the managers.

BOARD MEMBERSHIP

The great majority of directors are non-executive, and are not involved in day-to-day executive management of the club and are by virtue of the bye-laws, owners or senior executives of member companies.

The chairman is responsible for the direction and effectiveness of the board and the oversight of the club's affairs and strategy. There are two deputy chairmen whose role is to assist the chairman in carrying out his role. The chairman and deputy chairmen are elected for terms of three years but may be re-elected for four further terms. The board has the benefit of expert insurance and investment guidance from its managers and personnel within the managers' group, as well as access to independent insurance and investment expertise as required.

One third of the directors must retire from office by rotation at each annual general meeting (AGM) and all directors appointed since the date of the last AGM must put themselves forward for re-election. Directors must retire from the board at the next AGM if they are no longer eligible to be elected to the board according to the bye-laws.

NOMINATION AND GOVERNANCE COMMITTEE

The Nomination Committee's roles and responsibilities were enhanced and the committee was renamed the Nomination and Governance Committee to reflect these changes during the year. The committee now has the additional responsibility for the oversight of the club's governance matters. The main responsibilities are set out in written terms of reference which are available on the club's website and include identifying suitable candidates for board membership and membership of board committees, reviewing the overall composition of the board, leading reviews of the board's effectiveness and reviewing the club's governance structure, policies and practices.

During the year, the committee reviewed the make-up of and balance of the skills on the board, as well as board attendance and potential candidates for board membership. The committee does not generally use the services of an external consultancy firm or open advertising for the appointment of non-executive directors as board candidates are generally sought from the members. The committee also leads the review of the managers' performance, and in this respect during the year reviewed their performance against the specific requirements of the service level agreement, as well as the managers' remuneration. The committee also conducted a comprehensive review of the club's governance policies during the year and the board's matters reserved and terms of reference were enhanced as a result.

BOARD EVALUATION

The performance of the board, its committees, and the chairman are reviewed periodically and the Nomination and Governance Committee will conduct, as it did two years ago, an evaluation of the board's effectiveness during the summer. Each member of the board will be asked to complete a detailed questionnaire which will focus on the balance of skills within the board, the attributes required for new appointments, and will review board practices, procedures and decision-making processes to improve efficiency and effectiveness. The responses to the questionnaires and the findings of the review meetings will be reviewed by the Nomination and Governance Committee, to identify any corrective actions required.

MEMBER ENGAGEMENT

A member survey was conducted during the year to gauge the members' views on the club and identify any areas for improvement. The results of the survey were reviewed in detail by the Nomination and Governance Committee and the board in order to facilitate the board's understanding of the members' views. In addition to this process, the managers aim to visit as many members as practically possible every year to ensure that they are aware of the club's strategy and operations and to identify any areas for concern.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee's role includes review of the financial statements of the club, its financial regulatory returns, relations with and reports from the external and internal auditors, and oversight of the club's risk management and internal controls.

The main responsibilities are set out in written terms of reference which are available on the club's website. During the year the committee gave consideration to the appointment of the external auditors and the nature and scope of the year-end audit. It reviewed the annual report. It considered compliance with accounting standards, the independence and effectiveness of the external auditors, and the scope and extent of non-audit services provided by them.

The committee reviewed the integrity and effectiveness of the club's financial controls, the operation and resources of the risk management, compliance and internal audit functions, and the risk management, compliance and internal audit reports. The club's principal risks and the effectiveness of the company's risk management and internal controls systems were reviewed by the committee and the board.

The committee monitored the capital requirements of the club, reviewed the progress of the club's Own Risk and Solvency Assessment, reviewed the development of the club's internal model for use under Solvency II, including its inputs, assumptions, methodology, sensitivities and outputs, and also the club's progress with Solvency II compliance generally.

MAINTENANCE OF A SOUND SYSTEM OF INTERNAL CONTROLS

The board has satisfied itself through a comprehensive review by the Audit and Risk Committee that there are suitable and appropriate systems of control within the club's management, including a process for identifying, evaluating and managing the risks that the club faces, and that controls operate effectively, including monitoring that the club operates within its risk appetite.

The club adopts the three lines of defence system of internal control, supplementing operational management with risk management and compliance monitoring, and internal audit assurance, through regular reviews and tests of controls to ensure their adequacy. Risk management, compliance and internal audit report to every meeting of the board's Audit and Risk Committee.

RISK MANAGEMENT

The board, and its Audit and Risk Committee, sets and reviews on a regular basis the club's risk appetite, the major business risks facing the club, their potential impact, and the board is responsible for the systems in place to manage and mitigate those risks.

During the year, the board has revised its risk appetite statement to provide greater guidance to the management of the business. In particular, more detailed measures of the club's appetite for all key risks have been established, with key risk indicators reported at each board meeting.

The managers have a comprehensive risk management system, which provides an effective method of monitoring and controlling risks, and continuously assess business risks and the effectiveness of control processes in place. The club's risk management processes and systems are designed to ensure that management and the club's business units regularly review the risks in the risk register to ensure that outstanding risk mitigation actions or controls are occurring in a timely manner and properly followed up.

The club has developed a framework for identifying and managing those risks and their impact on economic capital. The risk management system and processes are linked into the club's internal model whose outputs assist in the management of the business as well as in the assessment of the capital required to reflect the financial impact of these business risks.

The principal risks facing the group and the risk mitigation actions, controls and processes by which they are managed are explained earlier in this report.

COMPLIANCE AND REGULATION

The club's compliance and regulatory obligations are overseen by the Audit and Risk Committee. The managers' compliance function submits reports to all meetings of the Audit and Risk Committee, which include details of work carried out pursuant to the compliance monitoring programme agreed by the board and any issues arising therefrom. The managers also report any incidents where controls have either failed or nearly failed or where risks have materialised or have come close to doing so.

Corporate Governance

INTERNAL AUDIT

An internal audit function operates within the club. The function is managed and led by a senior manager who reports directly to the Audit and Risk Committee as well as to the managers' chief executive. The managers' internal audit department is independent of the personnel involved with the day-to-day management of the club.

The board has direct access to the head of internal audit. Reports are provided to the Audit and Risk Committee at its meetings three times each year, summarising the findings of the audits together with a schedule of the outstanding audit issues and progress against the agreed audit timetable.

The audit timetable and audit universe are designed to be risk-focused and to cover the full range of the club's operations. They reflect amongst other things the operational, financial and administrative aspects of the club's businesses, taking as their points of reference the internal procedures, the controls recorded in the risk register and any reported incidents. Some audits may be carried out by external consultants or by staff from outside the internal audit function.

REMUNERATION

The club does not have a formal remuneration committee. Directors receive fees agreed by the club membership from time to time in general meeting, appropriate to their non-executive status. The fees paid to the directors were increased by the members at the club's AGM in November 2011 and remain in line with those paid in other P&I clubs. Directors who are employed by the managers do not receive director's fees. However, the performance-related elements of their remuneration are reviewed by the managers' group Remuneration Committee to ensure that they are stretching and designed to promote the long-term success of the business.

The club's administrative functions are undertaken by the managers who receive a management fee for their services, which is agreed by the board annually. This follows a review by the Nomination and Governance Committee, reporting to the board, of the managers' budgets, performance and cost, including in comparison with other clubs.

INSURANCE AND INDEMNITY

The club maintains liability insurance for its directors and officers with a cover limit of £30m, which is renewed on an annual basis. The club also indemnifies its directors through its constitutional documents.

CONFLICTS OF INTEREST

The board has considered the potential conflicts of interest that exist within the club's and the board's operations, and has adopted a conflicts of interest policy. A conflicts register is maintained, identifying potential conflicts of interest that could affect the club.

In a mutual organisation, the members are also the insured parties. Negotiations relating to any matter concerning members or directors in their capacity as insureds are conducted at arm's length. Directors do not participate in board discussions on specific matters concerning their companies as insureds.

Procedures are in place to ensure that potential conflicts of interest between the club and the managers, and between the club's members, and between members and other clients of the managers' group, are identified and managed.

BUSINESS AND ETHICAL VALUES AND TREATING CUSTOMERS FAIRLY

The club is committed to conducting its business affairs in a fair, proper and ethical manner, and in compliance with all applicable laws, regulations and professional standards. The managers have adopted a set of corporate values to ensure that their work on behalf of the club is carried out with integrity and fairness, which have been communicated to all staff.

The board and the managers are committed to treating customers and all stakeholders fairly, and keep under review the quality of service that the club provides. There is a complaints system, which is published on the website.

PREVENTION OF FINANCIAL CRIME AND WHISTLEBLOWING

The managers have procedures to prevent the club being involved unwittingly in money laundering or in inappropriate payments. They also have in place whistleblowing procedures to ensure that members of their staff can raise matters of concern confidentially so that they may be appropriately investigated. This has now been extended to the club's members, correspondents and advisors and details can be found on the club's website www.standard-club.com.

HEALTH AND SAFETY

The club strongly supports and encourages safe working practices on board the ships that it insures. The managers have a strong health and safety culture, and have adopted appropriate policies to ensure that the management of the club is carried out in a way that protects the health and safety of all those who work on management of the club.

BUSINESS CONTINUITY

The managers have full business continuity contingency plans, which they periodically test, to ensure that the club can continue to operate in the event of a serious incident, such as, for example, a terrorist event. Business records and documentation are stored electronically, are regularly backed-up and are accessible remotely. A full business continuity test was carried out at the club's main administrative office during the year which confirmed that the business was able to continue functioning, including all key processes.

ENVIRONMENTAL POLICY

The day-to-day business of the club is carried out by its managers, who are committed to minimising the impact on the environment of their business operations and to achieving best practice in areas in which they do have an environmental impact. The managers have taken steps to reduce their carbon footprint, and strive to minimise their energy consumption through their energy management policy and by encouraging staff to use energy thoughtfully. Where possible, the managers use energy-efficient business appliances and computers, thereby giving rise to energy savings and a reduction in emissions. Standard House, which accommodates the managers' London operations, incorporates a number of design and other initiatives to reduce that office's environmental impact and carbon footprint. Electronic document management systems have been implemented. Where practicable, the managers source their supplies from local businesses so as to minimise distribution and transport-related emissions. Suppliers are required, as far as reasonable, to have an appropriate environmental policy. In order to reduce travel-related emissions, the club has invested in video-conferencing facilities. As part of their environmental policy, the managers have also implemented recycling programmes.

The club requires its members to comply with all relevant environmental regulations, standards and laws, and supports them in developing and maintaining best practice in their operating procedures and practices in order to minimise the impact of their businesses on the environment.

The club translates environmental policy into practical guidelines that assist implementation of good practice amongst its membership. It regularly audits members' ships and management to monitor compliance with environmental regulations, and to evaluate and encourage their implementation of good operating procedures. The club encourages members to be 'best in class' and looks at initiatives to help them achieve this. It will not accept for entry or continue to insure members who consistently fail to comply with acceptable standards of responsible operation.

Operational Review

UNDERWRITING – P&I CLASS

Each of the recent policy years is in surplus after taking account of investment income attributable to each year, but we are reporting an overall underwriting deficit this financial year with a combined ratio of 114%. One significant factor behind this result is that there were several large claims in the 2010/11 policy year that occurred just before the last year-end and which were not at that stage capable of being accurately reserved, so that the underwriting surplus reported last year did not reflect the current claims forecast.

The 2009/10 policy year was closed at the 10 May 2012 board meeting with a combined ratio of 88%. The closed years generally remain stable. However, in general, premium levels have not kept pace with the increase in the cost of claims, and this is reflected in a deficit projected for the 2011/12 policy year and also, at the present time, for the current year. Nevertheless, the original Estimated Total Premium is not expected to be exceeded in any of the open years.

The club's owned tonnage grew from 84mgt at 20 February 2011 to 95mgt at 19 February 2012, but the tonnage chartered by members was slightly less than originally expected at 36.5mgt rather than 39mgt. As reported below, at renewal this year, the club's tonnage reduced somewhat so that the owned tonnage started the current policy year at 94mgt and chartered tonnage is expected to be 30mgt in the current year. The board continues to believe that long-term growth is positive, but that it should be carefully managed and new business should only be underwritten at sustainable prices.

Great attention is paid to ensuring that the membership continues to meet the club's underwriting criteria with regard to the quality of operation. The club continues to invest in its loss prevention programme and the Member Risk Review process to ensure the quality of risks insured. In addition, the club monitors the spread of risk measured in a variety of ways so that no sector of the membership, or indeed single member, becomes overweight relative to the whole.

RENEWAL 20 FEBRUARY 2012 – P&I CLASS

The cost of claims and other expenses has risen in the last 12 months. With this in mind, the board set a 5% general increase for the 2012 renewal. From a technical point of view a higher increase was probably justified, but the board was conscious that the continued troubled financial climate and freight markets have had a significant impact with many members experiencing very difficult trading conditions. In light of the difficult trading conditions, the board decided to adjust the premium instalment plans, so that the increase in premium generated by the 5% general increase was deferred in cash terms into 2013.

As in previous years, some new members were welcomed and some existing members added additional ships to their entries. Some members who failed to meet the club's underwriting and quality criteria were not renewed. Overall, this renewal represented a consolidation of the club's position at a time of increasing costs and poor trading conditions for members. Overall, owned tonnage was slightly down at renewal and chartered tonnage is also expected to be less this year, although, as previously stated, the tonnage at the start of the current policy year is slightly higher than at the start of last year.

THE CLAIMS ENVIRONMENT

The last policy year has seen a continuing trend towards a greater number of large claims. The top 20 claims by value represent over two-thirds of the total claims cost for the year and, at present, there are 13 claims estimated above $1m in the year to 20 February 2012, including two Pool claims.

One of the Pool claims was the grounding and capsize of the cruise ship *Costa Concordia* off Giglio Island, Italy. This casualty occurred on 13 January 2012. There were 3,206 passengers and 1,024 crew on board the ship at the time. The ship struck an underwater rock formation, resulting in substantial damage to the hull below the water-line, causing the ship to capsize in shallow waters. A full-scale evacuation and rescue operation was mounted and the vast majority of passengers were transferred ashore without injury. 32 passengers and crew died or are presumed dead. Offers of compensation have been made to the uninjured passengers in accordance with applicable law and the club is also involved in a complex bunker and wreck removal operation. The claim is shared 50/50 with another club in the International Group. It is too early to estimate the total expenditure in relation to this matter but it can be assumed that this casualty will easily exceed the Pool layer of $60m and will be a substantial claim on the International Group excess of loss reinsurance contract. The claim may well turn out to be the club's biggest ever claim, and quite possibly the biggest ever claim in the International Group.

Claims projections for the older policy years remain fairly stable. The 2010/11 policy year is now developing within expectations after a substantial increase in the forecast soon after the last year end.

The club has continued to experience significant claims inflation going beyond increases in commodity prices. This is a particularly notable feature of the larger claims. Levels of compensation for injury and death continue to rise throughout the world – dramatically so in some emerging markets. New environmental legislation imposes higher levels of fines and more onerous clean-up requirements in many parts of the world. Wreck removal expenses have risen dramatically in recent years as technological advances facilitate ever more ambitious operations in challenging environments and at water depths that would have been impossible until fairly recently.

The emergence of new risk scenarios has always been a feature of the P&I claims environment. New trends in claims are closely monitored and considerable resources are devoted to the club's loss prevention programme which is designed to assist members in addressing new legal or operational challenges.

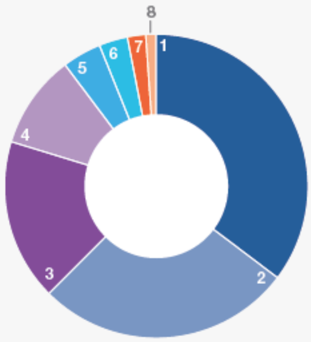
LONDON CLASS

The London class constitutes the post-reorganisation business of the Standard London Club, and specialises in insuring small vessels operating in the inland waterways system and harbours and coastal waters of Europe. The class, which is managed by a dedicated team within the club management, is able to bring to its membership the specialised knowledge of the liabilities and legal regimes of this class of business that has been built up over many years of experience and which therefore allows members to benefit from a service tailor-made to their particular operations.

SHIP TYPES ENTERED

OWNED TONNAGE

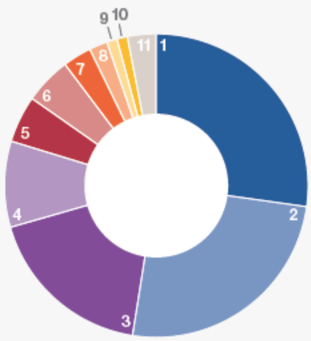
1	Short Sea – Dry	**35%**
2	Dry Barge	**27%**
3	Tank Barge	**17%**
4	Short Sea – Wet	**10%**
5	Tugs, Pushboats	**4%**
6	Passenger	**3%**
7	Work	**2%**
8	Specialist	**1%**



COUNTRY OF MANAGEMENT

OWNED TONNAGE

1	Russia	**27%**
2	The Netherlands	**25%**
3	Germany	**18%**
4	Turkey	**9%**
5	Hungary	**5%**
6	Belgium	**5%**
7	Slovakia	**3%**
8	Baltic States	**2%**
9	United Kingdom	**1%**
10	Italy	**1%**
11	Rest of Europe	**3%**



Operational Review

The operations of the class are overseen by a class committee drawn from its membership as follows:

- G Jaegers, Reederei Jaegers GmbH (Chairman)
- P A V L Grulois, Groep Victor Huygebaert
- Capt. I McNaught, Trinity House
- A Meynköhn, Wyker Dampfschiffs-Reederei-Föhr- Amrum GmbH
- M Mirzoev, Joint Stock "Volga Shipping"
- R Pütz, Imperial Schiffahrt GmbH
- M Schroiff, Unterweser Reederei GmbH
- A Struyf, Plouvier Transport NV
- P Wassenaar, WASMACO

London class business is underwritten in a fiercely competitive environment, but the underwriting results continue to demonstrate a high degree of stability. The 2011/12 policy year is performing much better than the 2010/11 policy year which was the most costly year for the class on record. The 2009/10 policy year was an exceptionally good year. The original Estimated Total Premium is expected to be sufficient for each open year and indeed no supplementary call has been required for the past 34 years.

For renewal this year, the directors of Standard London (prior to re-organisation) set a renewal budget based on expiring rates inclusive of reinsurance costs, for those members not needing specific rate adjustment for adverse record. As usual, there were some losses but these were more than compensated by new business. Overall, the class achieved a 13.2% increase in premium over the previous year.

Most of the new business came from Turkey, an area in which the class already had an established position, but recent developments created more opportunities for growth. Other growth areas included Russia as well as the class's core markets, Germany and the Netherlands.

This year a new cover for losses arising out of delay caused by the obstruction of major waterways within Western Europe was introduced. The cover was launched successfully with more than 30 members taking up the new cover.

The London class benefits from a specific reinsurance programme consisting of quota-share and excess of loss elements provided by the club's main P&I class.

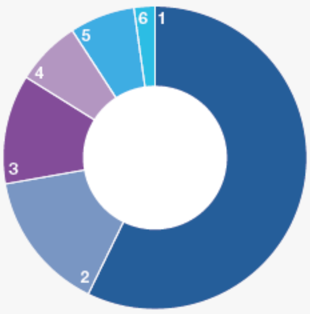
STANDARD OFFSHORE

The offshore membership of the club has continued to grow. This year, two new supply boat operators from the Nordic region, one Asian supply boat operator and one production operation with Asian focus joined the club. In addition, during the course of the policy year, a further 19 FPSOs joined the club of which 18 were entries from existing members and one was from a new member.

SHIP TYPES ENTERED

OWNED TONNAGE

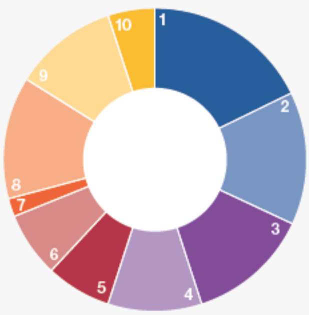
1	Production	**58%**
2	Installation/ Construction	**15%**
3	FSO	**12%**
4	Supply support	**7%**
5	Drilling	**7%**
6	Accommodation	**2%**



COUNTRY OF MANAGEMENT

OWNED TONNAGE

1	Monaco	**18%**
2	The Netherlands	**14%**
3	Italy	**13%**
4	USA	**10%**
5	United Kingdom	**7%**
6	Singapore	**7%**
7	Canada	**2%**
8	Rest of Europe	**13%**
9	Rest of World	**11%**
10	Rest of Asia	**5%**



Considerable management time during the year was focused on ensuring that the reinsurance market understands the risks written by the club and the underwriting discipline that is applied to this business area. As reported in the reinsurance section of this review, the placement of the non-poolable reinsurance programme, on which the successful support of this line of business is heavily dependent, proved difficult again this year. However, the club was successful in achieving the continued placement of non-Pool cover up to a limit $1bn for production risks. Market conditions, however, remained challenging as new entrants in the market continue to provide robust competition.

The steady development of offshore activity was reflected in the record number of contracts reviewed with the club reviewing 545 contracts over the last 12 months, a 23% increase on the previous year. The contract review service is a key element where the club can add value by establishing the nature and extent of the risks borne by the member and his cover under the P&I entry.

The club's Offshore Forums continue to be popular industry events and this year's forum held in London had a record participation. The club continues to participate in a number of industry conferences and committees.

The club produces a special offshore edition of the *Standard Bulletin* once a year. This is one of few publications dealing specifically with insurance and legal issues relevant to shipowners operating in the offshore market.

Operational Review

STANDARD ASIA

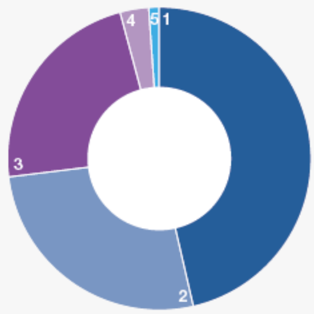
Standard Asia continues to be a success and the club's Asian business has increased again this year. Growth has come mainly from existing members acquiring new tonnage, but there has also been some completely new business.

The managers of Standard Asia are active participants in Asian shipping industry events and trade association committees. Standard Asia is delighted at the support received, not just from members and their brokers, but also from the Singaporean authorities, who give tremendous support and encouragement to the maritime industry.

SHIP TYPES ENTERED

OWNED TONNAGE

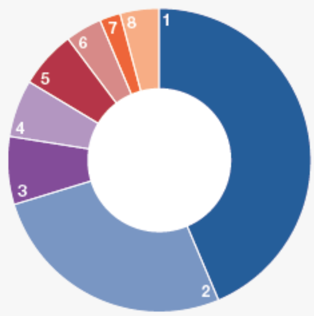
1	Dry Bulk	**47%**
2	Tanker	**27%**
3	Container & General Cargo	**23%**
4	Offshore	**3%**
5	Other	**1%**



COUNTRY OF MANAGEMENT

OWNED TONNAGE

1	Republic of Korea	**43%**
2	Singapore	**26%**
3	Hong Kong	**7%**
4	Taiwan	**6%**
5	Indonesia	**6%**
6	Australia	**4%**
7	Thailand	**2%**
8	Rest of Asia	**4%**



TS21

The club's joint venture with Tokio Marine and Nichido Fire, TS21, continues to prosper. We can report that at the last renewal there was further consolidation to TS21 from existing members from their traditional P&I partners. In addition we welcomed five new members over the last year and the tonnage, number of ships and premium stand at their highest ever levels.

DEFENCE CLASS

This year is shaping up to be the most expensive policy year to date and, although there has been some stabilisation in claims costs, it is unlikely that these will return to levels experienced prior to the global financial crisis. The disputes in which the club is involved are undoubtedly more complex from a legal and technical standpoint than in previous years. The managers have taken steps through close monitoring and extensive internal audits to ensure that the club works closely with members to agree a case management strategy so that realistic objectives are quickly identified with no unnecessary costs incurred.

The defence class was renewed with a 5% general increase in rates but with deductibles being increased where members had not previously been entered on the standard deductibles.

WAR RISKS CLASS

The War Risks class provides war risks cover principally for British flag and British controlled ships although in recent years cover has been extended to non-British flagged ships. The class is a member of the Combined Group of War Risks Associations whose primary role is to arrange collective reinsurance for member clubs through the Pool and reinsurance arrangements. The class income is derived principally from premiums levied upon its members based on the advance contribution but further premiums are charged for ships entering Additional Premium areas.

The operations of the class are overseen by a class committee drawn from its membership as follows:

- R Clarke, British Columbia Ferry Services, Inc
- D Ofer, Zodiac Maritime Agencies Ltd
- J B Rae-Smith, Swire Pacific Offshore Ltd

SHIP QUALITY, OPERATIONAL STANDARDS AND LOSS PREVENTION

The club has continued to dedicate effort and resources to ensure that the members and ships entered operate to an acceptable standard. This goal remains the focus of the club's loss prevention programme, particularly in light of the growth in tonnage seen during the last four years.

The club continues to implement a robust condition survey programme for new and existing members. During the past year, a total of 396 condition surveys were carried out. This includes 42 for the London class and 42 in the offshore energy sector, of which 28 were of units such as FPSOs, mobile drilling units, floating power stations and offshore wind farm units. The survey results continue to provide useful data in assessing risk.

The Member Risk Review programme, introduced three years ago, continues to be a major tool in ensuring that all members have a safety management system of a standard acceptable to the club. The programme has been successful in enabling the club to assess the risk that new members present and better understand their operations. It also provides an opportunity for the managers to meet members' senior technical and operational representatives. A number of members have reported that they have found the review process useful and it has helped them to improve their safety management systems. The Member Risk Review has also played an important part in strengthening the underwriting and claims processes. In the last year, a total of 64 reviews were carried out by the safety and loss prevention team. Although the reviews have generally confirmed good operating and safety standards from most members, a small number of reviews have raised issues such as poor crew management and crew retention, ineffective systems for accident reporting and investigation (and therefore not learning from previous incidents), poor ship supervision and inadequate management attention towards safety and environmental protection. 169 reviews have been carried out since the programme started.

As in previous years, the big concern continues to be the 'human element', and human error remains the major factor in many claims. Poor training, lack of management guidance or supervision, complacency and a failure to follow procedures continue to be frequently the cause of accidents. Similarly, as with last year, navigational incidents have significantly contributed to the number and cost of major claims. Personal injury claims also continue to occur owing to poor compliance with basic safety procedures. Almost all are preventable and often relate to failure on the part of shore-side management to create an effective safety culture on board.

The club's Safety and Loss Advisory Committee continues to make a strong contribution to the club's risk management and loss prevention experience. It is comprised of technical representatives from a broad spectrum of the club's members, and the club is grateful to them for the time that they devote to the safety and loss programme. The committee meets three times a year to review causes of the large claims that the club has experienced, so that lessons can be learnt for the future. Safety initiatives are discussed and reviewed and guidance provided to the loss prevention department. The Standard Asia Safety and Loss Advisory Forum, which has been initiated during the last year, operates in a similar manner, has given the club a valuable regional perspective on loss prevention issues and these experiences are shared.

The managers continued to produce safety and loss publications and organise seminars on operational and safety topics throughout the year, designed to provide members with topical information and advice in order to avoid or minimise claims and improve safety at sea.

CLUB RETENTION AND THE POOL

The individual club retention remains at $8m but this will continue to be kept under review.

Pool claims are notoriously volatile, and this is inevitable given the relatively small statistical sample of claims involved and the range of their potential values. The past 12 months has seen the club notify two new claims on the Pool. One of these was the *Costa Concordia* which has been referred to above.

The International Group conducted a further review of the pooling mechanism in 2011 aimed at ensuring that the system monitors fairness between clubs and to ensure that exposures generated are manageable. Whilst the Pool retention remains at $60m, for 2012 the Pool has been split into two layers: $8m to $45m and $45m to $60m. The lower layer is contributed to in the traditional way with the contribution formula reflecting clubs' relative tonnages, premiums and claims, with a loss ratio adjustment. In the upper layer, contributions follow tonnage weighted according to ship type, but a 10% coinsurance is applied to the club producing the claim with the remaining 90% being pooled.

HYDRA

Hydra is not a risk-taking vehicle separate from the International Group clubs; it is an internal reinsurance entity, owned collectively by the clubs, that provides, through each segregated cell, cover to each cell-owning club for each club's own existing Pool exposure.

Hydra was originally established both to provide a structure for retaining more risk in the reinsurance layer and to provide a degree of inter-club financial security for large claims within the Pool. Hydra has continued to operate satisfactorily during the year. It remains a valuable tool within the club system for retaining risk to the extent appropriate to do so.

Hydra continues to benefit from stop-loss reinsurance on its co-insurance of the first layer of the general excess of loss reinsurance programme.

THE INTERNATIONAL GROUP REINSURANCE PROGRAMME

The club's reinsurance programme has three main elements. The first is the club's participation in the International Group's pooling and excess of loss reinsurance programme. This programme continues to be the single biggest contract placed in the marine market, and virtually all of the world's reinsurers that have an appetite for this class of insurance participate in one way or another.

There was no change to the essential structure of the programme this year. Renewal was, however, only concluded after agreeing to pay an additional premium of $40m following deterioration of the *Rena* claim (entered in another International Group club) and the occurrence of the *Costa Concordia* casualty.

NON-POOL REINSURANCE PROGRAMME

The second element of the club's reinsurance programme is for those claims that fall outside the International Group's Pool and excess of loss contract. These non-poolable claims can arise on all ship types and in all trades because of the exclusions in the International Group contract, and a large proportion of the club's members benefit from the club's non-poolable covers. The biggest users of the non-Pool programme are those involved in the offshore energy and specialist sectors, whose risks are largely excluded from the Pool. The club's reinsurance programme provides limits of up to $1bn as well as great flexibility of cover.

This year's renewal took place against the background of a difficult reinsurance market, with reinsurers focusing very closely on the aggregation of exposure with their energy risks. The club's long-standing transparency and cooperation with its reinsurers served to help the club achieve a result that was the best available in the market conditions. The club was able to agree renewal with the same maximum limit of $1bn. The club is grateful for the support shown by the club's brokers and reinsurers.

RETENTION REINSURANCE

The third element of the club's reinsurance is in respect of claims within the club's retention. Traditionally, the club's philosophy has not been to rely on extensive reinsurance protection, preferring to rely principally on the club's reserves to smooth out underwriting results. However, for a number of years, the club has had some protection against the larger claims within its retention. This protection has been useful in some of the more volatile recent years, and in an environment of greater required solvency levels, reinsurance protection mitigates to some extent the need for solvency capital.

As a general principle, the club's preference is to buy reinsurance that will respond in the short term – that is, high-level excess of loss for large claims – rather than covers that will only mature into payable claims from reinsurers in many years' time, such as low-level stop-loss. And, in any event, it is not the club's approach to rely on reinsurance to compensate for underwriting indiscipline or to allow the club to underwrite business that the club would otherwise not wish to underwrite.

Although the club prefers to pitch its reinsurance buying at a level where the club does not expect to make claims, there have nonetheless been losses to reinsurers on some contracts. The club is very grateful for the support shown by its reinsurers, and the club values highly the relationship that the club has with them.

INVESTMENTS

The year to end-February 2012 was another challenging year for investment markets. It included the Arab spring, the Japanese tsunami, the on-going Eurozone crisis, the downgrade of US government debt and further quantitative easing by the major central banks. In this environment, the club's investment assets, excluding Standard House, returned approximately 6.7%. This estimated return is the combined return of the Standard family of clubs for the whole financial year.

The portfolio's strategy is designed to ensure that risk is kept within the board's appetite. The goal is to have a sufficient spread of assets to allow value to be achieved whilst at the same time diversifying risk.

As at the end of February 2012, the investment portfolio was allocated approximately as follows:

- Sovereign bonds 40.6%
- Corporate bonds 23.8%
- Equities 17.3%
- Alternatives 3.0%
- Gold 1.3%
- Cash 14.0%

The approximate currency allocation at end February 2012 was:

- US dollars (including gold) 72.0%
- Euro + Nordic currencies 15.6%
- Sterling 4.1%
- Australian dollar 0.1%
- Asian currencies 5.1%
- Other currencies 3.1%

The main changes in asset allocation over the year were decreases in equities, alternatives and corporate bonds offset by increases in cash and sovereign bonds.

The equity exposure was slowly reduced through the year in order to try to preserve capital in uncertain times. During the first five months the equity market had been trading sideways at which point the managers reduced the exposure gradually. Post July the market was in 'risk off' mode as the rating agency Standard & Poor's downgraded US treasuries from AAA to AA+. In local currency and total return terms between end July and end September the Standard & Poor's 500 Index fell 12.5%, the Euro Stoxx 50 Index fell 18.4% and the FTSE All-Share Index fell 12.3%. The markets subsequently rallied but only the US equity market ended the year higher than at the start, with a total return of 5.1% during the year. The equity exposure at the end of year was approximately 17.3% with a bias towards companies who are both defensive and income-generating.

The net exposure to alternative assets was also reduced during the year. The reduction came through both the redemption of residual side pocket shares and the sale of a hedge fund. The returns of the holdings which had been held during the year were mixed and varied from minus 10.2% to positive 13.0%.

The portfolio's corporate bond holdings provide extra yield to the portfolio in a market environment where sovereign bonds are at historically low yields and cash rates are near zero. Corporate bond market returns were positive but marginally underperformed sovereign debt. The US corporate bond market underperformed the US treasury index by 0.3% and returned 9.3%. The European corporate bond market underperformed the European government index by 0.8% and returned 6.9%. The corporate bond allocation was reduced during the latter half of the year. Exposure was taken through a mixture of small direct holdings, exchange-traded funds and managed funds.

Operational Review

The portfolio's government bond allocation was concentrated on US, UK and German government bonds, all of which performed strongly as safe haven investments in a risk-averse world. The US 10yr bond yield fell from 3.4% at the beginning of the year to 2.0% at the close of the year. The return of the US bond market was 9.6%. The portfolio benefited from its exposure to UK gilts which, in local currency, outperformed both US treasuries and German government bonds.

Core Eurozone government debt, such as that issued by Germany and the Netherlands, outperformed peripheral debt during the period. German government bonds returned 11.3% in euros during the year, whilst Italian bonds returned 3.4% in the same period. The portfolio had a small exposure to both Spanish and Italian government bonds at the beginning of the year. These bonds were sold between April and June prior to the extreme sell-off of peripheral market bonds. The Spanish 10 year yield spread over 'safe haven' German bonds widened from 218bp at the beginning of the year to 462bp in November after which spreads narrowed back to 313bp by the end of the year.

The portfolio's main non-US dollar currencies depreciated against the US dollar with the euro returning minus 3.2% and sterling minus 1.9%. However, gold had another strong year with a return of 25.4%. The commodity was volatile, rising from $1,411 per ounce at the start of the year to a high of $1,895 near the beginning of September, back to $1,531 per ounce at the end of December and a subsequent rally to $1,770 per ounce at the end of the year. The portfolio had a small allocation to gold at the beginning of the year. By August all the direct gold exposure had been sold. The managers waited until the December lows to reinvest.

SOLVENCY AND CAPITAL MANAGEMENT

Solvency II remains a significant challenge for the club, as it does for all insurers with activities in the European Union. The major reorganisation of the club's UK activities, which completed on 30 December 2011, has had the effect of consolidating all business previously written by four regulated entities in the UK into a single UK-based insurance company, Standard Europe. Standard Bermuda is now the holding company for the group, which also principally consists of Standard Asia, the other direct underwriting entity, and Standard Re, the group's internal reinsurance vehicle. The main motivation for the reorganisation was to facilitate Solvency II compliance by making better use of capital resources and reducing the duplication of compliance obligations across a number of companies.

The club has continued to develop its internal model in order to enable it to make assessments of its own capital needs as well as giving it the option of seeking to use it, in part, to assess its capital needs for regulatory purposes. The internal model is also used to inform important business planning issues including setting the renewal pricing strategy, reinsurance purchasing and establishing projections of the club's prospective result against which actual performance can be measured.

Last year, it was not yet clear whether, or to what extent, the club would wish to use an internal model for regulatory capital assessments or whether changes would be made to the prescribed standard formula approach to regulatory capital assessment so that it was not necessary to apply to have the internal model to be used for regulatory capital. The issue at stake is how the standard formula calculates reinsurer default risk, and whether or not the specific arrangements within the International Group, whereby reinsurer default is pooled can be handled through the standard formula. Although discussions in this respect are continuing, it is not yet clear that the standard formula will sufficiently allow for the Group's pooling arrangements, so the current intention remains that the club will seek internal model approval. However, the intention is to use the model, in relation to regulatory capital, for insurance risk (constituting underwriting risk, reserve risk and reinsurance risk and reinsurer counterparty failure risk), but not for market risk (that is, investment and related risks) or operational risk.

Solvency II also requires the club to meet extensive corporate governance requirements and the last twelve months have seen the development and regularisation of many documented policies and procedures as well as the introduction of a new system for recording and monitoring risks within the business and the enhancement of the club's risk management framework.

As a result of the corporate reorganisation, the club's capital includes contributions from the London and War Risks classes for the first time this year. While this capital is aggregated across all classes for assessing overall company capital needs, the free reserves associated with each class are separately maintained and allocated for the benefit of the members of the class that has generated the free reserves.

The reorganisation has also helped to clarify the regulatory responsibilities for the different parts of the group. Prior to the reorganisation, Standard Bermuda wrote insurance business in the UK and was directly regulated by the UK Financial Services Authority (FSA). Post-reorganisation, Standard Bermuda is licenced to write insurance business in Bermuda alone (although it will not for the time being underwrite direct insurance business) and the intention is that it will now be solely regulated by the Bermuda Monetary Authority (BMA). Solvency II requires acceptable group supervision to be in place for groups with some EU presence. It is hoped that group supervision can be undertaken by the BMA, which has applied to be granted 'equivalent' status to European Solvency II regulation.

In summary, the UK operations of the club are now solely conducted through Standard Europe which is regulated by the FSA in the UK; Standard Asia conducts business in Singapore and is regulated by the Monetary Authority of Singapore; and Standard Bermuda acts as their holding Company, and also owns the group's captive insurance company, Standard Re. Standard Bermuda and Standard Re are both based in Bermuda and regulated by the BMA. Standard Re, has, along with Standard Europe and Standard Asia, been rated 'A' by Standard & Poor's.

This will help with the assessment of the capital that Standard Europe needs to hold on a solo basis.

The ability of the club to make supplementary calls remains an important part of the resources available to meet the capital requirements of Solvency II. The Solvency II Framework Directive envisages that mutual insurers, such as the club, will be able to apply to their regulator to have the right to make supplementary calls included as tier 2 capital. Tier 1 capital comprises the free reserves of the club, as adjusted for balance sheet item revaluations under Solvency II, and is unrestricted, whereas tier 2 capital, such as the right to make supplementary calls, is restricted to no more than 50% of the overall capital resources of the club. As part of the preparation for Solvency II, application will be made to the FSA, Standard Europe's UK regulator, to have the right to make supplementary calls recognised as part of its capital.

The board keeps the need to make supplementary calls under review when considering the overall financial resources available to the club and has decided that no supplementary call is currently needed for any of the open policy years, nor is any expected. The board's strategic approach to capital has been referred to above in the free reserves section of the business review.

SERVICE QUALITY

The quality of the service offered to members is a priority for the board and in June 2011 a survey was undertaken of members and their brokers. This survey, which was conducted by an independent agency, asked for views on the level of satisfaction with claims, underwriting, communication and general interaction with the club. A very high level of satisfaction was recorded from members and brokers in most areas. Additionally, though, the club was able to identify one or two areas requiring further effort, and specific plans were formulated to address the areas concerned.

Members are looked after by dedicated teams, each of whose responsibilities include underwriting, claims management, documentation and credit control. These teams are intended to give members the focused and personal attention that ensures that an individually tailored, solution-based approach is brought to members' insurance requirements. The managers' network of offices in London, Bermuda, New York, Singapore, Piraeus and Tokyo forms an integrated management structure and enables the club to provide on-the-spot service delivery. Emphasis is placed on strong and constructive personal relationships with members and good teamwork.

The board monitors club performance generally by reference to key performance indicators at each board meeting and the managers' service levels are measured at least once a year against specific criteria identified by the board and set out in a service level agreement. The board reviewed the performance criteria in November 2011 to ensure that they remain relevant.

The club is committed to recruiting the highest quality people and providing them with on-going development in order to deliver outstanding service to the membership.

Operational Review

During the year, the managers have continued to support the development of the formal International Group P&I qualification for which four of the seven modules have now been accredited by the Chartered Institute of Insurers for its Advanced Diploma. 13 members of the managers' staff successfully sat examinations during the year.

The board believes that the club should and does play an important role in sharing knowledge that will help members avoid or reduce the impact of claims. In addition to the well-regarded member training programmes and offshore forum that took place in London, the managers have held seminars in Piraeus, Hamburg, Mumbai, Seoul, Singapore and Istanbul on topics such as the human element in shipping, and major casualties and pollution. In addition, a number of useful publications have been issued to members this year, including seven issues of the *Standard Bulletin*, four of *Standard Safety* and three of *Standard Cargo*, as well as numerous web alerts and news items.

INDUSTRY ISSUES

Piracy

Piracy has long been a threat to shipping in those parts of the world where the writ of governments is weak and systems of law enforcement corrupt or ineffective. The club does not need to remind members that in recent years pirate activity off the coast of Somalia, extending from the Gulf of Aden to well into the Indian Ocean and the Arabian Gulf, has escalated dramatically and now poses a major threat to world shipping. The geographical range of pirate attacks and the levels of violence used has increased, and the number of attacks, the cost to the shipping industry and the cost of ransoms have all also increased over recent years, although the increased use of armed guards may be having an effect in containing the level of attacks.

Normal P&I cover does not exclude piracy and so continues during a pirate attack leading to the capture of a ship and its crew. However, the payment of ransom is not currently a covered risk by itself and there are a number of other underwriters who respond to the various liabilities and expenses to which the shipowner is subject. The managers have, at the request of the club board investigated the appropriateness and adequacy of insurance cover for liabilities arising from piracy and whether the current insurance arrangements should be changed to provide a more effective and shipowner-oriented solution.

The club is also working with the International Group of P&I Clubs to promote the objectives of providing clear instructions to all members as to what precautions should be taken when sailing in areas of danger and, more generally, galvanising public opinion and prompting governmental response in an attempt to eradicate the problem of piracy.

At the same time, best management practice advice is being disseminated detailing the measures that can be taken to successfully evade and resist pirate attacks. The club is also advising members on the use of armed guards on ships, where this is consistent with national and flag requirements. The managers have also been actively participating in the recently launched BIMCO GUARDCON contract for the use of guards on ships.

Sanctions

Sanction regimes have continued to tighten in relation to several states, particularly Syria and Iran.

On 9 May 2011, the European Union (EU) adopted Regulation 442/2011 which imposed asset-freezing measures on certain persons identified as being responsible for the violent repression of the civilian population in Syria or benefiting from or supporting the regime. The scope of the measures was subsequently widened to cover natural or legal persons and entities associated with them. In September 2011 the EU imposed a prohibition on the purchase, import or transportation from Syria of crude oil and petroleum products.

Additional sanctions were imposed upon Iran by the United Kingdom, the United States of America and the EU following the report of the International Atomic Energy Agency into Iran's nuclear programme. On 21 November 2011 the UK HM Treasury imposed new financial restrictions against Iran under the Financial Restrictions (Iran) Order 2011. Financial institutions (including insurers such as the club) are required to cease business relationships and transactions with all Iranian banks, including their branches and subsidiaries, and the Central Bank of Iran. The club is prohibited from making any payments through any bank which are ultimately paid to an Iranian bank.

The US Treasury's Office of Foreign Assets Control continues to list certain Iranian individuals and entities (including shipping companies) which are 'specially designated'. This designation continues to prohibit trading with those individuals and entities by US persons. This would include provision of insurance services. US sanctions legislation was expanded on 21 November 2011 when President Obama issued Executive Order (EO) 13590 which applies extra-territorially and targets Iran's petroleum and petrochemical industries. The EO sanctions the sale, lease, or provision of goods, services, technology, or support to Iran that could directly and significantly contribute to the enhancement of Iran's ability to develop petroleum resources located in Iran. The EO also expressly prohibits the sale, lease, or provision of goods, services, technology, or support to Iran that could directly and significantly facilitate the maintenance or expansion of its domestic production of petrochemical products. The US government has also identified Iran as a jurisdiction of 'Primary Money Laundering Concern' under section 311 of the USA Patriot Act. This now effectively bars all transactions with Iranian entities in US dollars regardless of whether such transactions are sanctionable.

On 23 January 2012 the EU issued Decision 2012/35/CFSP. An implementing Regulation is expected and will implement an oil ban and restrictions on Iran's petrochemical industry. It is likely to be of immediate effect although it should include an allowance for contracts made before 23 January 2012 and executed before 1 July 2012. The EU Regulation is likely to prohibit the provision directly or indirectly of insurance related to the import, purchase or transport of Iranian crude oil and petroleum products or of Iranian petrochemical products.

The board, on 14 February 2012, amended the club rules to clarify that no claims will be covered if they arise out of an unlawful, prohibited or sanctionable trade or if it is unlawful, prohibited or sanctionable to provide insurance thereof under United Nations resolutions or the trade or economic sanctions, laws or regulations of the European Union, United Kingdom, United States of America, the place of incorporation or domicile of the member or the ship's flag state.

The International Group is currently attempting to persuade legislators that it is counterproductive for liability insurance to be subject to sanctions.

Pollution

As last year, there have been very few major changes in the global legislative and regulatory environment relating to ship-source pollution.

The main developments have been in China where the Regulations of the People's Republic of China on the Prevention and Control of Marine Pollution from Ships came into force on 1 January 2012, with a two month grace period for strict enforcement. The main requirement is for the operator of any ship greater than 10,000 gt or that carries polluting and hazardous cargo to contract with an approved pollution response company (SPRO) before entering a Chinese port. The Regulations are being implemented by the Maritime Safety Agency (MSA), which is responsible for approving SPRO's in each Chinese port. Unfortunately a list of approved SPROs was not circulated before 1 January and although such a list has now been provided, issues relating to SPROs' liability insurance and response tariffs remain unresolved. The International Group, with assistance from The International Tanker Owners Pollution Federation Limited (ITOPF), has been working hard to resolve these issues with the central MSA in Beijing and the various local MSAs in the Chinese ports. The club has published a number of circulars and a set of frequently asked questions in the past few months and will produce further circulars to keep members apprised of developments.

Following the *Deepwater Horizon* blowout in the Gulf of Mexico in April 2010, a number of legislative proposals were brought before United States Congress, but no new legislation has so far been passed, although it seems likely that Congress may eventually enact measures that will either impose increased OPA-90 limits or provide for greater flexibility for the limits to be adjusted upwards, with such increases being at a more reasonable level than was originally feared.

Operational Review

The National Pollution Funds Center has recently allowed the owners of the *Selendang Ayu* (a bulk carrier which grounded in Alaska in 2004, spilling 350,000 gallons of bunker and diesel oil before breaking up) to limit their liability under OPA 90, which will mean that the owners and their club and the International Group's reinsurers will receive a rebate of approximately $100m.

In Australia, amendments to the Protection of the Sea (Prevention of Pollution from Ships) Act 1983 came into force on 3 December 2011 which extended strict liability offences for the discharge of oil or an oily mixture from a ship into the sea by the master and/or the owner to the charterer. This is a significant departure from settled law in Australia and many other common law countries.

Since the adoption of the 2010 Protocol to the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea, 1996, (HNS Convention) in April 2010, no further states have ratified the Convention, and it therefore seems unlikely to enter into force in the foreseeable future.

Since 2009, the International Group has been working with member states at the International Maritime Organization (IMO) to further standardise the procedures relating to the certification of insurance (blue cards) required under various IMO Conventions. In December 2011, the International Group published guidelines which harmonise the practice of the clubs with regard to issuing CLC and Bunker Convention blue cards. Significant progress has been made in persuading IMO States to accept blue cards issued by International Group clubs in electronic form.

European Union enquiry/IGA 2009

As reported last year, the European Commission continues to be engaged in an investigation into the International Group system. After extensive provision of data last year, there has been less activity in the past 12 months. A new case team has been appointed at the Commission, and a questionnaire was recently submitted by the case team to a number of marine insurance brokers. A 'state of play meeting' has recently taken place between the case team and the Group, and the Group's hope is that any relevant issues can be clarified sooner rather than later so that progress can be made with this long-running matter.

European Union third maritime safety package

The International Group continues to monitor closely and comment as appropriate on EU maritime matters, in order that shipowners' interests are properly represented and defended. The third maritime safety package is made up of seven items: the Port State Control Directive, the Accident Investigation Directive, the Vessel Traffic Monitoring Directive (VTM), the Passenger Liability Regulation (PLR), the Class Directive, the Flag State Directive and the Insurance Directive (formerly known as the Civil Liability Directive).

The package as a whole was adopted by the European Parliament and entered into force on 17 June 2009. Member states had until 1 January 2012 to implement the directives into their domestic law although several states have not yet finalised their implementing legislation. The PLR will, however, have direct effect without the need for any national legislation and will apply from 31 December 2012 or the entry into force of the Athens Convention in the EU, if earlier.

The Insurance Directive requires owners of ships of 300 gt and above to maintain insurance cover of the type provided by International Group clubs up to the 1996 LLMC limits and to have such cover evidenced by an insurance certificate when entering an EU port or flying the flag of a member state. Initial discussions with a number of EU member states (including UK, Denmark and Norway) indicate that they will enforce the directive through Port State Control. 16 states have indicated that they are prepared to accept a standard P&I certificate of entry as evidence that the necessary insurance cover is in place under the directive. The International Group is continuing discussions with other EU member states to ensure that they follow the same approach and that the directive is implemented in a uniform manner across the EU.

The 2002 Protocol to the Athens Convention has been ratified by seven states. A further three states need to ratify it before it comes into force internationally, 12 months after the 12th ratification. In order to ratify the Convention, EU member states need an authorisation to do so by means of an EU Council Decision. The Council is discussing a draft decision. The EU acceded to the 2002 Protocol on 15 December 2011 and EU member states may now ratify the Convention. It is highly unlikely that the 2002 Protocol to the Athens Convention will be in force internationally when the PLR takes effect on 31 December 2012. The implementation of the PLR and its relationship with the Athens Convention raise a number of difficult legal and practical issues, including the scope of application and issuance of blue cards. 10 EU member states have confirmed that they will require blue cards to be issued following the entry into force of the PLR.

Normally, the clubs only issue blue cards under operative international conventions when they are in force (such as the Civil Liability Convention and the Bunkers Convention) rather than under national or regional laws. However, 12 of the 13 International Group clubs, including the Standard Club, have voted in favour of giving EU PLR non-war blue cards and so the expectation is that clubs will issue such blue cards. The more general and fundamental question as to whether clubs should cover P&I war risks, from the ground up, which, amongst other things, would facilitate the provision of blue cards generally, is under consideration by the International Group clubs. The Standard Club board is supportive of the inclusion of war risks.

War risks

The International Group of P&I Clubs is currently looking at the question of whether the IG clubs should extend their cover to include P&I war risks as part of normal cover. Currently, war risks liabilities are excluded, other than on an excess basis – excess of ship value and members' normal war risks coverage. There are good arguments both for and against this potential change. The essential argument for the inclusion of war risks – that is the deletion or modification of the current war risks exclusion – is that it is no longer logical or convenient or, probably, economically justifiable, for non-war and war liabilities to be separately insured.

If shipowners' various insurance coverages were being re-invented from scratch, there is little doubt that P&I would include all liabilities, including those caused by war risks. Inclusion of war risks would also considerably facilitate and make more economic the provision of certificates of financial responsibility under the various current liability conventions and those due to come into force in the near future.

The board has considered the matter and is of the view that it would be in members' interests for the clubs to include war risks. It recognises that there are various practical hurdles to overcome if the suggested change were to be made, but none of them is insurmountable. The decision of other clubs' boards are awaited. This is an important matter of principle and the board will be considering all options going forward in the light of whatever decision is taken by the International Group as a whole.

Directors' Responsibilities

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each person who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the club's financial statements for the year ended 20 February 2012 of which the auditors are unaware, and
- each director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the club's auditors are aware of that information.

DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the Auditors' Report as set out on page 39 is made with the view to distinguishing for members the respective responsibilities of the directors and auditors in relation to the financial statements.

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations in Bermuda. The directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards. The financial statements are required to give a true and fair view of the state of affairs of the group and parent company and of the income or expenditure of the group and parent company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the group and parent company and to enable them to ensure that the financial statements comply with applicable law and United Kingdom Accounting Standards. They are also responsible for safeguarding the assets of the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The maintenance and integrity of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in Bermuda and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board,

Charles Taylor & Co (Bermuda)
Company Secretary
10 May 2012

Independent Auditors' Report

4

Independent Auditors' Report

To the Members of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited

We have audited the group and parent company financial statements (the 'financial statements') of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited for the year ended 20 February 2012 which comprise the consolidated Income and Expenditure Account, the consolidated and parent company Balance Sheets, the consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law in Bermuda and United Kingdom Accounting Standards as issued by the UK Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 36 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law in Bermuda and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the club's members as a body in accordance with Section 90 of The Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving the opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 20 February 2012 and of the group's excess of income over expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

PricewaterhouseCoopers LLP
Chartered Accountants
London, United Kingdom

10 May 2012

Financial Statements
5

Consolidated Income and Expenditure Account
For the year ended 20 February 2012

	Notes	Total 2012 US$m	Total Restated 2011 US$m	Class 1 – P&I 2012 US$m	Class 1 – P&I 2011 US$m	Class 2 – Defence 2012 US$m	Class 2 – Defence 2011 US$m	Class 3 – London 2012 US$m	Class 3 – London Restated 2011 US$m	Class 4 – War 2012 US$m	Class 4 – War Restated 2011 US$m
Technical account – general business											
Earned premiums, net of reinsurance											
Gross premiums written including calls	3	**286.2**	278.1	**262.4**	254.7	**11.9**	11.6	**10.1**	10.1	**1.8**	1.7
Outward reinsurance premiums	4	**(65.5)**	(68.2)	**(59.4)**	(62.8)	**(1.7)**	(1.3)	**(2.7)**	(2.8)	**(1.7)**	(1.3)
Earned calls, net of reinsurance		**220.7**	209.9	**203.0**	191.9	**10.2**	10.3	**7.4**	7.3	**0.1**	0.4
Total income		**220.7**	209.9	**203.0**	191.9	**10.2**	10.3	**7.4**	7.3	**0.1**	0.4
Expenditure											
Claims paid	6	**285.6**	181.1	**261.0**	162.9	**13.4**	10.6	**11.2**	7.6	**–**	–
Reinsurers' share	7	**(107.9)**	(36.9)	**(85.8)**	(32.2)	**(14.7)**	(0.8)	**(7.4)**	(3.9)	**–**	–
Net claims paid		**177.7**	144.2	**175.2**	130.7	**(1.3)**	9.8	**3.8**	3.7	**–**	–
Change in provision for claims		**202.6**	96.2	**196.4**	87.6	**7.1**	3.9	**(0.9)**	4.7	**–**	–
Reinsurers' share		**(139.4)**	(69.6)	**(153.3)**	(64.1)	**12.9**	(2.2)	**1.0**	(3.3)	**–**	–
Change in net provision for claims		**63.2**	26.6	**43.1**	23.5	**20.0**	1.7	**0.1**	1.4	**–**	–
Claims incurred, net of reinsurance		**240.9**	170.8	**218.3**	154.2	**18.7**	11.5	**3.9**	5.1	**–**	–
Net operating expenses	8	**2 3.9**	21.1	**20.9**	18.1	**0.6**	0.6	**2.0**	1.9	**0.4**	0.5
Total expenditure		**264.8**	191.9	**239.2**	172.3	**19.3**	12.1	**5.9**	7.0	**0.4**	0.5
Balance on the technical account for general business		**(44.1)**	18.0	**(36.2)**	19.6	**(9.1)**	(1.8)	**1.5**	0.3	**(0.3)**	(0.1)
Non-technical account											
Balance on the technical account for general business		**(44.1)**	18.0	**(36.2)**	19.6	**(9.1)**	(1.8)	**1.5**	0.3	**(0.3)**	(0.1)
Investment income	5	**54.3**	41.6	**46.8**	37.8	**1.2**	1.4	**4.4**	1.6	**1.9**	0.8
Unrealised gains on investments	5	**39.0**	58.4	**35.5**	54.2	**1.6**	1.2	**1.9**	2.4	**–**	0.6
Investment expenses and charges											
Investment management expenses	5	**(2.9)**	(2.4)	**(2.7)**	(2.2)	**(0.1)**	–	**(0.1)**	(0.1)	**–**	(0.1)
Losses on realisation of investments	5	**(9.8)**	(14.4)	**(7.8)**	(13.1)	**(0.7)**	(0.5)	**(1.2)**	(0.7)	**(0.1)**	(0.1)
Unrealised losses on investments	5	**(33.2)**	(16.4)	**(29.0)**	(14.9)	**(0.4)**	(0.6)	**(3.0)**	(0.6)	**(0.8)**	(0.3)
Exchange (losses)/gains		**(2.6)**	(2.8)	**(2.2)**	(2.7)	**0.2**	–	**(0.5)**	(0.1)	**(0.1)**	–
Other income/(charges) including value adjustments		**4.8**	(4.4)	**4.6**	(4.3)	**–**	–	**0.1**	–	**0.1**	(0.1)
Excess/(shortfall) of income over expenditure before taxation		**5.5**	77.6	**9.0**	74.4	**(7.3)**	(0.3)	**3.1**	2.8	**0.7**	0.7
Tax on excess/(shortfall) of income over expenditure	9	**(3.2)**	(1.4)	**(2.3)**	(0.6)	**(0.1)**	(0.2)	**(0.6)**	(0.4)	**(0.2)**	(0.2)
Excess/(shortfall) of income over expenditure after tax		**2.3**	76.2	**6.7**	73.8	**(7.4)**	(0.5)	**2.5**	2.4	**0.5**	0.5
Minority interest		**0.6**	0.7	**0.6**	0.7	**–**	–	**–**	–	**–**	–
Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve	20	**2.9**	76.9	**7.3**	74.5	**(7.4)**	(0.5)	**2.5**	2.4	**0.5**	0.5

There are no recognised gains or losses other than those included in the income and expenditure account.

The income, expenditure and results for the year are wholly derived from continuing activities.

There is no material difference between the excess of income over expenditure before taxation and the excess of income over expenditure for the financial year stated above and their historical cost equivalents.

The notes on pages 46 to 64 form part of the accounts.

Consolidated Balance Sheet
At 20 February 2012

		Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	Notes	**2012 US$m**	Restated 2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	Restated 2011 US$m	**2012 US$m**	Restated 2011 US$m
Assets											
Investments											
Investment property	13	**27.2**	26.4	**27.2**	26.4	**–**	–	**–**	–	**–**	–
Other financial investments	14	**670.6**	659.3	**605.8**	601.3	**28.1**	19.7	**29.7**	28.6	**7.0**	9.7
Reinsurers' share of technical provisions											
Claims outstanding	12	**337.7**	200.3	**334.7**	181.4	**2.4**	15.3	**0.6**	3.6	**–**	–
Debtors											
Debtors arising out of direct insurance operations	18	**65.8**	65.3	**63.8**	63.8	**1.6**	1.0	**0.2**	0.4	**0.2**	0.1
Other debtors	19	**20.3**	13.3	**15.9**	12.6	**4.3**	0.3	**0.1**	0.2	**–**	0.2
		86.1	78.6	**79.7**	76.4	**5.9**	1.3	**0.3**	0.6	**0.2**	0.3
Other assets											
Tangible assets	16	**8.6**	9.8	**8.4**	9.5	**–**	–	**0.2**	0.3	**–**	–
Cash at bank and in hand		**120.8**	51.7	**90.1**	45.6	**14.5**	2.9	**7.9**	2.2	**8.3**	1.0
Deferred tax asset	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		129.4	61.5	**98.5**	55.1	**14.5**	2.9	**8.1**	2.5	**8.3**	1.0
Prepayments and accrued income		**10.6**	23.8	**9.2**	21.6	**0.8**	1.1	**0.5**	0.9	**0.1**	0.2
Total assets		**1,261.6**	1,049.9	**1,155.1**	962.2	**51.7**	40.3	**39.2**	36.2	**15.6**	11.2
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	20	**352.4**	349.5	**304.1**	296.8	**12.4**	19.8	**24.8**	22.3	**11.1**	10.6
		352.6	349.7	**304.3**	297.0	**12.4**	19.8	**24.8**	22.3	**11.1**	10.6
Minority interest		**–**	0.6	**–**	0.6	**–**	–	**–**	–	**–**	–
Technical provisions											
Gross claims outstanding	12	**860.7**	660.3	**817.8**	621.4	**35.3**	28.2	**7.6**	10.7	**–**	–
Provisions for other risks and charges											
Deferred tax provisions	10	**–**	0.5	**–**	0.2	**–**	–	**–**	0.2	**–**	0.1
Creditors											
Creditors arising out of direct insurance operations		**30.0**	30.1	**23.8**	27.8	**5.6**	1.3	**0.6**	1.0	**–**	–
Other creditors including taxation and social security	21	**17.0**	7.8	**11.1**	5.7	**0.1**	0.1	**1.5**	1.9	**4.3**	0.1
Current account between classes		**–**	–	**(2.5)**	9.1	**(1.7)**	(9.1)	**4.2**	–	**–**	–
		47.0	37.9	**32.4**	42.6	**4.0**	(7.7)	**6.3**	2.9	**4.3**	0.1
Accruals and deferred income		**1.3**	0.9	**0.6**	0.4	**–**	–	**0.5**	0.1	**0.2**	0.4
Total liabilities		**1,261.6**	1,049.9	**1,155.1**	962.2	**51.7**	40.3	**39.2**	36.2	**15.6**	11.2

The financial statements were approved by the board of directors on 10 May 2012 and were signed on its behalf by:

R Menendez Ross
Chairman

The notes on pages 46 to 64 form part of the accounts.

Company Balance Sheet
At 20 February 2012

	Notes	Total 2012 US$m	Total 2011 US$m	Class 1 – P&I 2012 US$m	Class 1 – P&I 2011 US$m	Class 2 – Defence 2012 US$m	Class 2 – Defence 2011 US$m	Class 3 – London 2012 US$m	Class 3 – London 2011 US$m	Class 4 – War 2012 US$m	Class 4 – War 2011 US$m
Assets											
Investments											
Investments in group undertakings and participating interests	17	**8.7**	8.7	**8.7**	8.7	**–**	–	**–**	–	**–**	–
Other financial investments	14	**–**	23.4	**–**	21.7	**–**	1.7	**–**	–	**–**	–
		8.7	32.1	**8.7**	30.4	**–**	1.7	**–**	–	**–**	–
Reinsurers' share of technical provisions											
Claims outstanding	12	**–**	448.5	**–**	439.9	**–**	8.6	**–**	–	**–**	–
Debtors											
Debtors arising out of direct insurance operations	18	**–**	32.1	**–**	31.9	**–**	0.2	**–**	–	**–**	–
Amounts owed by group undertakings		**–**	4.4	**–**	3.6	**–**	0.8	**–**	–	**–**	–
Other debtors		**–**	1.8	**–**	1.8	**–**	–	**–**	–	**–**	–
		–	38.3	**–**	37.3	**–**	1.0	**–**	–	**–**	–
Other assets											
Tangible assets	16	**–**	3.9	**–**	3.9	**–**	–	**–**	–	**–**	–
Cash at bank and in hand		**–**	9.2	**–**	8.6	**–**	0.6	**–**	–	**–**	–
Deferred tax asset	10	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
		–	13.1	**–**	12.5	**–**	0.6	**–**	–	**–**	–
Prepayments and accrued income		**–**	14.3	**–**	14.0	**–**	0.3				
Total assets		**8.7**	546.3	**8.7**	534.1	**–**	12.2	**–**	–	**–**	–
Liabilities											
Reserves											
Statutory reserve		**0.2**	0.2	**0.2**	0.2	**–**	–	**–**	–	**–**	–
Contingency reserve	20	**5.3**	30.0	**5.3**	28.7	**–**	1.3	**–**	–	**–**	–
		5.5	30.2	**5.5**	28.9	**–**	1.3	**–**	–	**–**	–
Technical provisions											
Gross claims outstanding	12	**–**	479.7	**–**	470.7	**–**	9.0	**–**	–	**–**	–
Provisions for other risks and charges											
Deferred tax provisions	10	**–**	0.1	**–**	0.1	**–**	–	**–**	–	**–**	–
Creditors											
Creditors arising out of direct insurance operations		**–**	24.5	**–**	23.9	**–**	0.6	**–**	–	**–**	–
Other creditors including taxation	21	**–**	2.8	**–**	2.8	**–**	–	**–**	–	**–**	–
Amounts owed to group undertakings		**3.0**	9.0	**3.0**	7.7	**–**	1.3	**–**	–	**–**	–
		3.0	36.3	**3.0**	34.4	**–**	1.9	**–**	–	**–**	–
Accruals and deferred income		**0.2**	–	**0.2**	–	**–**	–	**–**	–	**–**	–
Total liabilities		**8.7**	546.3	**8.7**	534.1	**–**	12.2	**–**	–	**–**	–

The financial statements were approved by the board of directors on 10 May 2012 and were signed on its behalf by:

R Menendez Ross
Chairman

The notes on pages 46 to 64 form part of the accounts.

Consolidated Cash Flow Statement
For the year ended 20 February 2012

	Notes	Total 2012 US$m	Total Restated 2011 US$m	Class 1 – P&I 2012 US$m	Class 1 – P&I 2011 US$m	Class 2 – Defence 2012 US$m	Class 2 – Defence 2011 US$m	Class 3 – London 2012 US$m	Class 3 – London Restated 2011 US$m	Class 4 – War 2012 US$m	Class 4 – War Restated 2011 US$m
Net cash in/(out) flow from operating activities	22	**51.9**	51.8	**22.1**	48.2	**18.9**	(2.3)	**6.7**	5.6	**4.2**	0.3
Taxation											
Taxation paid		**(1.9)**	(0.2)	**(1.5)**	–	**(0.1)**	–	**(0.2)**	(0.1)	**(0.1)**	(0.1)
Net cash inflow/(outflow)		**50.0**	51.6	**20.6**	48.2	**18.8**	(2.3)	**6.5**	5.5	**4.1**	0.2
Cash flows were invested/(applied) as follows											
Increase in cash holdings		**69.2**	10.9	**44.5**	8.9	**11.6**	0.9	**5.7**	0.8	**7.4**	0.3
Net portfolio investments											
Investment property additions		**0.2**	–	**0.2**	–	**–**	–	**–**	–	**–**	–
Purchase of shares and other variable-yield securities		**163.0**	154.3	**152.1**	144.3	**–**	0.9	**9.3**	5.7	**1.6**	3.4
Purchase of debt securities and other fixed-income securities		**608.4**	592.7	**513.7**	553.0	**40.6**	4.2	**39.2**	23.0	**14.9**	12.5
Sale of shares and other variable-yield securities		**(213.9)**	(192.8)	**(197.6)**	(181.7)	**(0.9)**	(1.3)	**(11.5)**	(6.0)	**(3.9)**	(3.8)
Sale of debt securities and other fixed-income securities		**(576.9)**	(513.5)	**(492.3)**	(476.3)	**(32.5)**	(7.0)	**(36.2)**	(18.0)	**(15.9)**	(12.2)
Net cash flow from investing activities		**(19.2)**	40.7	**(23.9)**	39.3	**7.2**	(3.2)	**0.8**	4.7	**(3.3)**	(0.1)
Net investment/(application) of cash flows		**50.0**	51.6	**20.6**	48.2	**18.8**	(2.3)	**6.5**	5.5	**4.1**	0.2

The notes on pages 46 to 64 form part of the accounts.

Notes to the Financial Statements

1. Constitution

The club is incorporated in Bermuda as a company limited by guarantee and has a statutory reserve but no share capital. The members of the club are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the board of directors decides whether any surplus is retained in the contingency reserve for the purposes of the club or returned to members.

2. Accounting policies

(a) Basis of preparation

These group financial statements which consolidate the accounts of the club and its subsidiary undertakings have been prepared under the Bermuda Companies Act 1981, and also under the provisions of Schedule 3 to the UK Companies Act 2006. The club and its subsidiary undertakings have applied uniform accounting policies and on consolidation all intra group transactions, income and expenditure have been eliminated. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006.

The club has not prepared an income and expenditure account under the exemption in section 408 of the UK Companies Act 2006. The financial statements have been prepared under the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

The financial statements are prepared under the historical cost convention, as modified for the revaluation of investment properties and financial assets and liabilities (including derivative instruments) at fair value through income or expenditure.

Compliance with Statement of Standard Accounting Practice (SSAP) 19, 'Accounting for Investment Properties', requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure is given in accounting policy (k) below.

Regulations require the use of the term 'profit and loss account' as a heading. This is replaced in these financial statements by 'income and expenditure account', consistent with the mutual status of the club. The club has taken advantage of the exemption in Section 408 of the Companies Act 2006 to not present its individual income and expenditure statement account and the related notes that would have formed part of the financial statements.

The contingency reserve represents the free reserves of the club and is established in accordance with rule 20.6 of the rules of the club.

The financial statements are prepared on a going concern basis.

(b) Basis of consolidation

The consolidated financial statements include the financial information of the club and its subsidiary undertakings and are consolidated on an acquisition basis.

The treatment of business transferred to the club's subsidiary undertaking, Standard Europe, during the year under Part VII of the Financial Services and Markets Act 2000 is disclosed under note 11 to the financial statements.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

An undertaking is regarded as a subsidiary undertaking if the club has control over its operating and financial policies, generally determined by the ownership of more than 50% of the voting stock of the investee.

Uniform accounting policies are applied to all subsidiary undertakings.

(c) Annual basis of accounting

The transfer to or from the contingency reserve is determined using an annual basis of accounting.

For the purpose of reporting to mutual members, all transactions are allocated to individual policy years. The result of the policy year is determined and reported when it is closed after three years of development in accordance with rule 21, which requires policy years to be held open for three years. At the end of each financial year, any anticipated surplus or deficit arising on open years is transferred to or from the contingency reserve.

(d) Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to members. Contributions for periods after the balance sheet date are treated as prepaid and are not included in the income and expenditure account.

(e) Claims incurred

Claims incurred comprise all claims passed by the board, advances made on account of claims and related expenses paid in the year, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses.

2. Accounting policies continued

(f) Reinsurance recoveries

The liabilities of the club are reinsured above certain levels with similar associations under the International Group's Pooling Agreement and with market underwriters. The figures in the consolidated income and expenditure account relate to recoveries on claims incurred during the year.

Outstanding claims in the balance sheet are shown gross and the reinsurance recoveries are shown as an asset.

(g) Claims provisions and related reinsurance recoveries

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the club. The club takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Liability and marine claims are long tail so a large element of the claims provision relates to IBNR. Claims estimates for the club are derived from a combination of loss ratio-based estimates and a variety of estimation techniques. These are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. However, allowance is made for changes or uncertainties that may create distortions in the underlying statistics or that may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in club processes that might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks

The variety of estimation techniques assists in giving greater understanding of the trends inherent in the data being projected and in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each policy year.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Pollution and asbestosis claims can have a long delay between the occurrence and notification. In estimating the cost of these claims, the club considers the type of risks written historically that may give rise to exposure to these liabilities, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean-up techniques and industry benchmarks of the typical cost of such claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, and are adjusted to reflect changes in the nature and extent of the club's reinsurance programme over time.

An assessment is also made of the recoverability of reinsurance with regard to market data on the financial strength of each of the reinsurance companies.

(h) Reinsurance premiums

Reinsurance premiums include premiums paid in respect of the reinsurance agreement with market underwriters on an accruals basis.

(i) Investment return

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. The investment return is reported in the non-technical account.

Notes to the Financial Statements continued

2. Accounting policies continued

(j) Investments

Financial assets at fair value through income

The club classifies its investments as financial assets at fair value through income. As a result, gains and losses are taken to the income and expenditure account, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price. Where there is no active market fair value is measured by reference to other factors.

Derivative financial investments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. The club does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the income and expenditure account.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable settlement values. Amounts due from members and reinsurers are included in this category and are measured at cost less any provision for impairment in value.

Investments in subsidiaries

In the balance sheet of the company, investments in group undertakings and participating interests are stated at cost, unless their value has been impaired, in which case they are valued at the realisable value in use, as appropriate.

(k) Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date. Full valuations are made by independent, professionally qualified valuers in the year of acquisition, and thereafter once every five years. In the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required. In accordance with SSAP 19, no depreciation or amortisation is provided in respect of investment properties.

Rental income is recognised on the investment property as it falls due.

(l) Tangible assets

Tangible assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

The cost of the club's business systems has been capitalised as computer software. The original cost and any enhancements are written off over a 10 year period following installation on a straight line basis.

Furniture, fixtures and fittings are written off over a 15 year period following purchase on a straight line basis.

Assets in the course of construction are included in the balance sheet at their cost at the balance sheet date. Once completed they are recategorised as investment property and included at their open market value at the balance sheet date.

(m) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated at the US dollar rate of exchange at the balance sheet date with the resulting difference treated as an exchange gain or loss within the non-technical account.

Revenue transactions in foreign currencies are translated into US dollars at the rate applicable for the week in which the transaction takes place. Exchange differences are reported in the non-technical account.

Foreign currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been revalued at year-end rates of exchange and the potential profit or loss included in the non-technical account.

(n) General administration expenses

General administration expenses, including managers' remuneration, are included on an accruals basis.

(o) Taxation

Taxation provided is that which became chargeable during the year.

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the income and expenditure account.

Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the income and expenditure account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

2. Accounting policies continued

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable net taxable income from which the future reversal of the underlying timing differences can be deducted.

3. Gross premiums written including calls

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Estimated total premium, other premiums and releases 2011/12 (2010/11)	289.4	280.2	261.3	252.8	11.9	11.4	14.4	14.3	1.8	1.7
Adjustments to previous policy years	(3.2)	(2.1)	(3.2)	(2.3)	–	0.2	–	–	–	–
Inter-class reinsurance	–	–	4.3	4.2	–	–	(4.3)	(4.2)	–	–
Total calls and premiums	**286.2**	278.1	**262.4**	254.7	**11.9**	11.6	**10.1**	10.1	**1.8**	1.7

4. Outward reinsurance premiums

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
International Group excess of loss	26.7	31.5	26.7	31.5	–	–	–	–	–	–
Adjustment to prior years	(3.3)	4.0	(3.3)	4.0	–	–	–	–	–	–
Other premiums	41.3	34.5	35.6	28.9	1.4	1.3	2.7	2.8	1.6	1.5
Adjustment to prior years	0.7	0.4	0.3	0.5	0.3	0.1	–	–	0.1	(0.2)
Commissions	0.1	(2.2)	0.1	(2.1)	–	(0.1)	–	–	–	–
Reinsurance premiums paid	**65.5**	68.2	**59.4**	62.8	**1.7**	1.3	**2.7**	2.8	**1.7**	1.3

5. Investment return

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Investment income										
Shares and other variable-yield securities and unit trusts	3.7	3.5	3.2	3.1	0.1	0.1	0.3	0.1	0.1	0.2
Debt securities and other fixed-income securities	12.0	8.5	10.8	7.1	0.4	0.7	0.6	0.5	0.2	0.2
Deposit interest	0.5	0.2	0.5	0.2	–	–	–	–	–	–
Income from investment property	1.8	1.8	1.8	1.8	–	–	–	–	–	–
Gains arising on realisation of investments	36.3	27.6	30.5	25.6	0.7	0.6	3.5	1.0	1.6	0.4
	54.3	41.6	46.8	37.8	1.2	1.4	4.4	1.6	1.9	0.8
Investment expenses and charges										
Investment management expenses	(2.9)	(2.4)	(2.7)	(2.2)	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Losses on realisation of investments	(9.8)	(14.4)	(7.8)	(13.1)	(0.7)	(0.5)	(1.2)	(0.7)	(0.1)	(0.1)
	(12.7)	(16.8)	(10.5)	(15.3)	(0.8)	(0.5)	(1.3)	(0.8)	(0.1)	(0.2)
Unrealised gains on investments	39.0	58.4	35.5	54.2	1.6	1.2	1.9	2.4	–	0.6
Unrealised losses on investments	(33.2)	(16.4)	(29.0)	(14.9)	(0.4)	(0.6)	(3.0)	(0.6)	(0.8)	(0.3)
	5.8	42.0	6.5	39.3	1.2	0.6	(1.1)	1.8	(0.8)	0.3
Total investment return	**47.4**	66.8	**42.8**	61.8	**1.6**	1.5	**2.0**	2.6	**1.0**	0.9

6. Claims

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Members' claims	268.0	170.0	243.4	151.8	13.4	10.6	11.2	7.6	–	–
Other P&I clubs' Pool claims	17.6	11.1	17.6	11.1	–	–	–	–	–	–
Gross claims paid	**285.6**	181.1	**261.0**	162.9	**13.4**	10.6	**11.2**	7.6	–	–

Notes to the Financial Statements continued

7. Reinsurers' share of claims paid

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Claims recoverable from reinsurers	**(26.6)**	(27.4)	**(4.5)**	(22.7)	**(14.7)**	(0.8)	**(7.4)**	(3.9)	**–**	–
Claims recoverable from Pool	**(81.3)**	(9.5)	**(81.3)**	(9.5)	**–**	–	**–**	–	**–**	–
Reinsurers' share of claims paid	**(107.9)**	(36.9)	**(85.8)**	(32.2)	**(14.7)**	(0.8)	**(7.4)**	(3.9)	**–**	–

8. Net operating expenses

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Acquisition costs										
Management fee	**7.3**	6.2	**6.3**	5.3	**0.3**	0.3	**0.7**	0.6	**–**	–
General expenses	**1.8**	1.7	**1.7**	1.6	**–**	–	**0.1**	0.1	**–**	–
Administrative expenses										
Management fee	**7.5**	6.5	**6.1**	5.2	**0.3**	0.3	**0.7**	0.6	**0.4**	0.4
General expenses	**4.1**	3.9	**3.9**	3.4	**–**	–	**0.2**	0.4	**–**	0.1
Depreciation	**1.2**	1.1	**1.1**	1.1	**–**	–	**0.1**	–	**–**	–
Safety and loss control	**1.1**	0.9	**1.0**	0.8	**–**	–	**0.1**	0.1	**–**	–
Directors' fees	**0.4**	0.4	**0.3**	0.3	**–**	–	**0.1**	0.1	**–**	–
Auditors' remuneration for audit services	**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Auditors' remuneration for other services	**0.4**	0.3	**0.4**	0.3	**–**	–	**–**	–	**–**	–
Net operating expenses	**23.9**	21.1	**20.9**	18.1	**0.6**	0.6	**2.0**	1.9	**0.4**	0.5

The highest paid director received directors fees of $26,500 during the year (2011: $31,580). Directors are paid a flat fee with additional attendance fees.

During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditors as detailed below:

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Audit services										
Fees payable to the club's auditor for the audit of the parent company and consolidated accounts	**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Other services										
The audit of the club's subsidiaries, pursuant to legislation	**0.1**	0.1	**0.1**	0.1	**–**	–	**–**	–	**–**	–
Fees payable to the club's auditors and its associates for other services:										
(a) Other services pursuant to legislation, including the audit of the regulatory return	**0.3**	0.1	**0.3**	0.1	**–**	–	**–**	–	**–**	–
(b) Tax services	**–**	0.1	**–**	0.1	**–**	–	**–**	–	**–**	–
	0.5	0.4	**0.5**	0.4	**–**	–	**–**	–	**–**	–

9. Tax on excess/(shortfall) of income over expenditure

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Analysis of charge in the period										
Current UK corporation tax on taxable investment profits	**3.7**	0.9	**2.5**	0.5	**0.1**	0.1	**0.8**	0.2	**0.3**	0.1
Adjustments in respect of prior years	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total current tax	**3.7**	0.9	**2.5**	0.5	**0.1**	0.1	**0.8**	0.2	**0.3**	0.1
Deferred tax										
Origination and reversal of timing differences	**(0.5)**	0.5	**(0.2)**	0.1	**–**	0.1	**(0.2)**	0.2	**(0.1)**	0.1
Total deferred tax (note 10)	**(0.5)**	0.5	**(0.2)**	0.1	**–**	0.1	**(0.2)**	0.2	**(0.1)**	0.1
Tax on investment income	**3.2**	1.4	**2.3**	0.6	**0.1**	0.2	**0.6**	0.4	**0.2**	0.2

9. Tax on excess/(shortfall) of income over expenditure continued

Factors affecting tax charge for the period

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (26%). The differences are explained below:

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Excess/(shortfall) of income over expenditure before taxation	**5.5**	77.6	**9.0**	74.4	**(7.3)**	(0.3)	**3.1**	2.8	**0.7**	0.7
Multiplied by the standard rate of tax at 26% (2011: 28%)	**1.5**	21.7	**2.3**	20.8	**(1.9)**	(0.1)	**0.9**	0.8	**0.2**	0.2
Expenses/(income) not assessable for tax purposes	**2.2**	(20.6)	**0.2**	(20.4)	**2.0**	0.2	**(0.1)**	(0.4)	**0.1**	–
Unrealised gains spread for tax purposes	**–**	(0.3)	**–**	–	**–**	–	**–**	(0.2)	**–**	(0.1)
Tax losses carried forward	**–**	(0.1)	**–**	(0.1)	**–**	–	**–**	–	**–**	–
Tax losses utilised	**–**	0.2	**–**	0.2	**–**	–	**–**	–	**–**	–
Current tax charge for the period	**3.7**	0.9	**2.5**	0.5	**0.1**	0.1	**0.8**	0.2	**0.3**	0.1

The club is subject to corporation tax in the jurisdictions in which it does business, except in Bermuda, where there is no corporation tax. In the UK, corporation tax is limited to investment income owing to the mutual status of the club.

Factors affecting current and future tax charges

There are no factors affecting current and future tax charges.

10. Deferred tax

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Group										
Recognised										
Recognised deferred tax liability/(asset) at 21 February 2011	**0.5**	–	**0.2**	0.1	**–**	(0.1)	**0.2**	–	**0.1**	–
Recognised deferred tax movement for the year in the income and expenditure account	**(0.5)**	0.5	**(0.2)**	0.1	**–**	0.1	**(0.2)**	0.2	**(0.1)**	0.1
Recognised deferred tax liability as at 20 February 2012	**–**	0.5	**–**	0.2	**–**	–	**–**	0.2	**–**	0.1
Unrealised gains on investments revalued every year	**–**	0.5	**–**	0.2	**–**	–	**–**	0.2	**–**	0.1
Company										
Recognised										
Recognised deferred tax liability/(asset) at 21 February 2011	**0.1**	(0.1)	**0.1**	–	**–**	(0.1)	**–**	–	**–**	–
Recognised deferred tax movement for the year in the income and expenditure account	**(0.1)**	0.2	**(0.1)**	0.1	**–**	0.1	**–**	–	**–**	–
Recognised deferred tax liability as at 20 February 2012	**–**	0.1	**–**	0.1	**–**	–	**–**	–	**–**	–
Unrealised gains on investments revalued every year	**–**	0.1	**–**	0.1	**–**	–	**–**	–	**–**	–

Tax losses are held in respect of unrealised losses on the investment portfolio. These losses are only relievable against future investment profits and, consequently, no deferred tax asset has been recognised.

Notes to the Financial Statements continued

11. Part VII Transfer

	Transfer from Standard Bermuda (P&I class) on 30 Dec 2011 US$m	Transfer from Standard Bermuda (Defence class) on 30 Dec 2011 US$m	Transfer from Standard London on 30 Dec 2011 US$m	Transfer from Standard War Risks on 30 Dec 2011 US$m	Combined transfer US$m
Assets					
Financial investments including cash	8.3	11.0	31.5	11.4	62.2
Reinsurers' share of technical provisions	393.7	12.0	13.4	–	419.1
Tangible assets	3.9	–	0.2	–	4.1
Debtors	63.0	0.7	1.3	0.3	65.3
Total assets	**468.9**	**23.7**	**46.4**	**11.7**	**550.7**
Liabilities					
Technical provisions	425.6	13.3	20.3	–	459.2
Creditors	19.5	8.0	2.9	0.6	31.0
Total liabilities	**445.1**	**21.3**	**23.2**	**0.6**	**490.2**
General Reserves	**23.8**	**2.4**	**23.2**	**11.1**	**60.5**

Reserve reconciliation

	Class 3 – London US$m	Class 4 – War US$m	Combined US$m
Reserves bought forward at 20 February 2011	**22.3**	**10.6**	**32.9**
Excess of income over expenditure in the period to 30 December 2011	0.9	0.5	1.4
Excess of income over expenditure in the period to 20 February 2012	1.6	–	1.6
Excess of income over expenditure for the year to 20 February 2012	**2.5**	**0.5**	**3.0**
Reserves carried forward at 20 February 2012	**24.8**	**11.1**	**35.9**

Standard London and Standard War Risks

As noted in the directors' report, the business (and assets, liabilities and surplus reserves) of Standard London and Standard War Risks were transferred to Standard Europe in accordance with Part VII of the Financial Services and Markets Act 2000 with effect from 30 December 2011. No consideration was given for these transfers which preserve the individual member interests in the assets and liabilities transferred to the new classes of membership created in Standard Europe.

The value of the net assets of these companies at the date of transfer is shown above.

The results of Standard London and Standard War Risks have been consolidated using the merger accounting principles set out in Financial Reporting Standard 6. Accordingly the financial information for the current year has been presented, and that for the prior years restated, as if Standard Europe, Standard London and Standard War Risks had always been combined entities.

This business is recognised in the consolidated accounts under separate classes, Class 3 (London) comprising the former Standard London business, Class 4 (War) comprising the former Standard War Risks business. The effect on brought forward combined reserves for all classes is to increase those reserves by $32.9m from $316.8m to $349.7m.

The excess of income over expenditure for the year of the classes transferred is analysed between pre- and post- transfer results as shown above. All business transferred is continuing.

Standard Bermuda

As also noted in the directors' report, the business (and all assets and liabilities excluding investments at cost in its subsidiaries) of Standard Bermuda was also transferred to Standard Europe in accordance with Part VII of the Financial Services and Markets Act 2000 with effect from 30 December 2011, with no consideration given or goodwill arising. With merger accounting adopted the consolidated results of the group (for the P&I and Defence classes) are unchanged as a result of this transfer. The effect of the transfer on the contingency reserve of Standard Bermuda the company is shown in note 20 to the accounts.

12. Claims outstanding

The board closed the 2009/10 policy year at its meeting on 10 May 2012. The table below provides the position after closure.

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Group										
Open years										
Claims	**529.3**	388.5	**499.9**	359.3	**18.8**	16.8	**10.6**	12.4	**–**	–
Interclass reinsurance	**–**	–	**5.2**	3.8	**–**	–	**(5.2)**	(3.8)	**–**	–
Reinsurance recoveries	**(254.7)**	(156.6)	**(253.9)**	(147.0)	**(0.6)**	(6.0)	**(0.2)**	(3.6)	**–**	–
Net claims provision for open years	**274.6**	231.9	**251.2**	216.1	**18.2**	10.8	**5.2**	5.0	**–**	–
Closed years										
Claims	**331.4**	271.8	**307.1**	252.9	**16.5**	11.4	**7.8**	7.5	**–**	–
Interclass reinsurance	**–**	–	**5.6**	5.4	**–**	–	**(5.6)**	(5.4)	**–**	–
Reinsurance recoveries	**(83.0)**	(43.7)	**(80.8)**	(34.4)	**(1.8)**	(9.3)	**(0.4)**	–	**–**	–
Net claims provision for closed years	**248.4**	228.1	**231.9**	223.9	**14.7**	2.1	**1.8**	2.1	**–**	–
Total										
Claims	**860.7**	660.3	**807.0**	612.2	**35.3**	28.2	**18.4**	19.9	**–**	–
Interclass reinsurance	**–**	–	**10.8**	9.2	**–**	–	**(10.8)**	(9.2)	**–**	–
Reinsurance recoveries	**(337.7)**	(200.3)	**(334.7)**	(181.4)	**(2.4)**	(15.3)	**(0.6)**	(3.6)	**–**	–
Net claims provision	**523.0**	460.0	**483.1**	440.0	**32.9**	12.9	**7.0**	7.1	**–**	–
Company										
Open years										
Claims	**–**	274.9	**–**	270.6	**–**	4.3	**–**	–	**–**	–
Reinsurance recoveries										
– external	**–**	(140.4)	**–**	(138.9)	**–**	(1.5)	**–**	–	**–**	–
– Group	**–**	(121.1)	**–**	(118.6)	**–**	(2.5)	**–**	–	**–**	–
Net claims provision for open years	**–**	13.4	**–**	13.1	**–**	0.3	**–**	–	**–**	–
Closed years										
Claims	**–**	204.8	**–**	200.1	**–**	4.7	**–**	–	**–**	–
Reinsurance recoveries										
– external	**–**	(26.9)	**–**	(23.7)	**–**	(3.2)	**–**	–	**–**	–
– Group	**–**	(160.1)	**–**	(158.7)	**–**	(1.4)	**–**	–	**–**	–
Net claims provision for closed years	**–**	17.8	**–**	17.7	**–**	0.1	**–**	–	**–**	–
Total										
Claims	**–**	479.7	**–**	470.7	**–**	9.0	**–**	–	**–**	–
Reinsurance recoveries										
– external	**–**	(167.3)	**–**	(162.6)	**–**	(4.7)	**–**	–	**–**	–
– Group	**–**	(281.2)	**–**	(277.3)	**–**	(3.9)	**–**	–	**–**	–
Net claims provision	**–**	31.2	**–**	30.8	**–**	0.4	**–**	–	**–**	–

13. Investment property

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Net book value at 21 February 2011	**26.4**	24.9	**26.4**	24.9	**–**	–	**–**	–	**–**	–
Additions at cost	**0.2**	0.1	**0.2**	0.1	**–**	–	**–**	–	**–**	–
Revaluation surplus	**0.6**	1.4	**0.6**	1.4	**–**	–	**–**	–	**–**	–
Net book value at 20 February 2012	**27.2**	26.4	**27.2**	26.4	**–**	–	**–**	–	**–**	–

Investment property comprises of the club's freehold premises at Essex Street, London. The property was valued at 20 February 2012 by the directors at £17.3m (2011: £16.5m) with the resulting surplus on revaluation taken to the income and expenditure account.

Notes to the Financial Statements continued

14. Other financial investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Group										
At market value										
Shares and other variable-yield securities and units in unit trusts	**165.5**	216.7	**157.2**	202.1	**0.8**	1.8	**6.9**	9.3	**0.6**	3.5
Debt securities and other fixed-income securities	**505.1**	444.4	**448.6**	400.9	**27.3**	17.9	**22.8**	19.4	**6.4**	6.2
Open forward currency contracts	**–**	(1.8)	**–**	(1.7)	**–**	–	**–**	(0.1)	**–**	–
Total investments at market value	**670.6**	659.3	**605.8**	601.3	**28.1**	19.7	**29.7**	28.6	**7.0**	9.7
At cost										
Shares and other variable-yield securities and units in unit trusts	**163.1**	173.7	**129.9**	161.0	**26.3**	2.0	**6.3**	7.8	**0.6**	2.9
Debt securities and other fixed-income securities	**452.9**	435.6	**422.8**	392.8	**0.7**	17.8	**22.9**	19.0	**6.5**	6.0
Total investments at cost	**616.0**	609.3	**552.7**	553.8	**27.0**	19.8	**29.2**	26.8	**7.1**	8.9
Company										
At market value										
Shares and other variable-yield securities and units in unit trusts	**–**	3.0	**–**	3.0	**–**	–	**–**	–	**–**	–
Debt securities and other fixed-income securities	**–**	20.4	**–**	18.7	**–**	1.7	**–**	–	**–**	–
Open forward currency contracts	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total investments at market value	**–**	23.4	**–**	21.7	**–**	1.7	**–**	–	**–**	–
At cost										
Shares and other variable-yield securities and units in unit trusts	**–**	2.6	**–**	2.1	**–**	0.5	**–**	–	**–**	–
Debt securities and other fixed-income securities	**–**	19.8	**–**	18.2	**–**	1.6	**–**	–	**–**	–
Total investments at cost	**–**	22.4	**–**	20.3	**–**	2.1	**–**	–	**–**	–

Included in the carrying values above are amounts in respect of listed investments as follows:

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Group										
Shares and other variable-yield securities and units in unit trusts	**145.3**	190.7	**143.8**	187.0	**0.8**	1.2	**0.6**	1.6	**0.1**	0.9
Debt securities and other fixed-income securities	**302.7**	308.9	**266.0**	285.0	**20.3**	10.4	**14.5**	11.7	**1.9**	1.8
	448.0	499.6	**409.8**	472.0	**21.1**	11.6	**15.1**	13.3	**2.0**	2.7
Company										
Shares and other variable-yield securities and units in unit trusts	**–**	3.0	**–**	3.0	**–**	–	**–**	–	**–**	–
Debt securities and other fixed-income securities	**–**	13.4	**–**	13.4	**–**	–	**–**	–	**–**	–
Open forward currency contracts	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	–	16.4	**–**	16.4	**–**	–	**–**	–	**–**	–

Open forward currency contracts	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Group										
Fair value asset	**–**	(1.8)	**–**	(1.7)	**–**	–	**–**	(0.1)	**–**	–
Contract/notional amount	**86.1**	145.1	**84.9**	138.3	**–**	–	**1.2**	5.4	**–**	1.4
Company										
Fair value asset	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Contract/notional amount	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–

Open forward currency contracts represent potential losses or gains on forward contracts, which have been entered into to protect the assets of the club. These have been revalued at 20 February 2012 using exchange rates prevailing at that date. The total of the open forward contracts at any one time is limited by guidelines set by the board of directors and matched against currency and asset holdings in excess of the amount of the contracts.

15. Management of financial risk

The club is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowing), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the club primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

In addition to the risk management policies set out in the report of the directors, the club adopts the following approaches to financial risk:

Market risk

– Interest rate risk

Interest rate arises primarily from investments in fixed interest securities.

Interest rate risk is managed through the club's investment strategy. Debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds, with the club having defined investment guidelines that limit exposure in such holdings.

At the end of the financial year, 75% of the club's assets were invested in fixed interest assets (2011: 67%). The average duration of the fixed income assets is 7.4 years (2011: 5.0).

The club has no debt liability with interest payments that vary with changes in the interest rate.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. A decrease of 100 basis points in interest yields would result in additional profit for the club of $33m (2011: $20m).

– Equity price risk

The club is exposed to equity price risk as a result of its holdings in equity investments and hedge funds. The club has defined investment guidelines that limit exposure in such holdings.

Sensitivity analysis for equity price risk illustrates the effect of changes in equity market indices on the value of the investment portfolio. A 10% increase in equity values would be estimated to have increased the surplus before tax and reserves at the year end by $16.6m (2011: $18m).

– Currency risk

The club is exposed to currency risk in respect of liabilities under insurance policies denominated in currencies other than US dollars. The most significant currencies to which the club is exposed are sterling and the euro. The club seeks to manage this risk by constraining the deviation of the currencies of the assets from the estimated currencies of the liabilities.

The club also uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks.

At 20 February 2012, had sterling strengthened by 10% against the dollar with all other variables held constant, the excess of income over expenditure for the year would have been $3.0m higher (2011: $1.3m). Had the euro strengthened by 10% against the dollar the excess of income over expenditure for the year would have been $2.7m higher (2011: $1.8m).

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the club is exposed to credit risk are:

- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of claims already paid
- amounts due from members
- counterparty risk with respect to cash and investments

Notes to the Financial Statements continued

15. Management of financial risk continued

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

Group	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Derivative financial instruments	**–**	(1.8)	**–**	(1.7)	**–**	–	**–**	(0.1)	**–**	–
Debt securities	**505.1**	444.4	**448.6**	400.9	**27.3**	17.9	**22.8**	19.4	**6.4**	6.2
Loans and receivables	**82.8**	73.0	**76.9**	70.8	**5.4**	1.3	**0.3**	0.6	**0.2**	0.3
Assets arising from reinsurance contracts held	**3.3**	5.6	**2.8**	5.6	**0.5**	–	**–**	–	**–**	–
Cash at bank and in hand	**120.8**	51.7	**90.1**	45.6	**14.5**	2.9	**7.9**	2.2	**8.3**	1.0
Total assets bearing credit risk	**712.0**	572.9	**618.4**	521.2	**47.7**	22.1	**31.0**	22.1	**14.9**	7.5
AAA	**234.2**	213.2	**194.4**	186.7	**26.6**	13.9	**13.2**	8.6	**–**	4.0
AA	**45.0**	58.3	**44.3**	49.2	**0.7**	6.9	**–**	1.8	**–**	0.4
A	**95.9**	48.5	**68.6**	48.3	**14.1**	–	**4.9**	0.2	**8.3**	–
BBB	**1.4**	22.3	**0.7**	21.9	**–**	–	**0.7**	0.3	**–**	0.1
Below BBB or not rated	**335.5**	230.6	**310.4**	215.1	**6.3**	1.3	**12.2**	11.2	**6.6**	3.0
Total assets bearing credit risk	**712.0**	572.9	**618.4**	521.2	**47.7**	22.1	**31.0**	22.1	**14.9**	7.5

Company	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Derivative financial instruments	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Debt securities	**–**	20.4	**–**	18.7	**–**	1.7	**–**	–	**–**	–
Loans and receivables	**–**	32.9	**–**	31.9	**–**	1.0	**–**	–	**–**	–
Assets arising from reinsurance contracts held	**–**	5.5	**–**	5.5	**–**	–	**–**	–	**–**	–
Cash at bank and in hand	**–**	9.2	**–**	8.6	**–**	0.6	**–**	–	**–**	–
Total assets bearing credit risk	**–**	68.0	**–**	64.7	**–**	3.3	**–**	–	**–**	–
AAA	**–**	7.6	**–**	5.8	**–**	1.8	**–**	–	**–**	–
AA	**–**	14.6	**–**	14.1	**–**	0.5	**–**	–	**–**	–
A	**–**	7.4	**–**	7.4	**–**	–	**–**	–	**–**	–
BBB	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Below BBB or not rated	**–**	38.4	**–**	37.4	**–**	1.0	**–**	–	**–**	–
Total assets bearing credit risk	**–**	68.0	**–**	64.7	**–**	3.3	**–**	–	**–**	–

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

Assets below BBB or not rated comprise member receivables and investments in collective schemes which are not rated.

15. Management of financial risk continued

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the club is the obligation to pay claims to policy holders as they fall due. The club maintains holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

The following table provides a maturity analysis of the club's financial assets (classes 1 to 4 combined) representing the dates that contracts will mature, amounts are due for payment or assets could be realised without significant additional cost:

Group	Short-term assets US$m	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2012						
Shares and other variable-yield securities and units in unit trusts	163.8	–	–	–	1.7	**165.5**
Debt securities and other fixed-income securities	505.1	–	–	–	–	**505.1**
Forward currency contracts	–	–	–	–	–	**–**
Cash balances	120.8	–	–	–	–	**120.8**
Investment property	–	–	–	–	27.2	**27.2**
Debtors	26.6	59.5	–	–	–	**86.1**
Reinsurers' share of claims outstanding	–	101.3	67.5	118.2	50.7	**337.7**
	816.3	**160.8**	**67.5**	**118.2**	**79.6**	**1,242.4**
As at 20 February 2011						
Shares and other variable-yield securities and units in unit trusts	203.6	–	–	13.1	–	216.7
Debt securities and other fixed-income securities	444.4	–	–	–	–	444.4
Forward currency contracts	(1.8)	–	–	–	–	(1.8)
Cash balances	51.7	–	–	–	–	51.7
Investment property	–	–	–	–	26.4	26.4
Debtors	0.7	77.7	–	0.2	–	78.6
Reinsurers' share of claims outstanding	–	60.1	40.1	70.1	30.0	200.3
	698.6	137.8	40.1	83.4	56.4	1,016.3

Company	Short-term assets US$m	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2012						
Shares and other variable-yield securities and units in unit trusts	–	–	–	–	–	**–**
Debt securities and other fixed-income securities	–	–	–	–	–	**–**
Forward currency contracts	–	–	–	–	–	**–**
Cash balances	–	–	–	–	–	**–**
Debtors	–	–	–	–	–	**–**
Reinsurers' share of claims outstanding	–	–	–	–	–	**–**
	–	**–**	**–**	**–**	**–**	**–**
As at 20 February 2011						
Shares and other variable-yield securities and units in unit trusts	3.0	–	–	–	–	3.0
Debt securities and other fixed-income securities	20.4	–	–	–	–	20.4
Forward currency contracts	–	–	–	–	–	–
Cash balances	9.2	–	–	–	–	9.2
Debtors	11.9	26.4	–	–	–	38.3
Reinsurers' share of claims outstanding	–	134.5	89.7	157.0	67.3	448.5
	44.5	160.9	89.7	157.0	67.3	519.4

Notes to the Financial Statements continued

15. Management of financial risk continued

The following is an analysis of the estimated timings of net cash flows by financial liability (classes 1 to 4 combined). The timing of cash flows are based on current estimates and historic trends and the actual timings of cash flows may be materially different from those disclosed below:

Group	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2012					
Gross outstanding claims	259.4	172.3	300.5	128.5	**860.7**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	47.0	–	–	–	**47.0**
	306.4	**172.3**	**300.5**	**128.5**	**907.7**
As at 20 February 2011					
Gross outstanding claims	198.1	132.1	231.1	99.0	660.3
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	37.9	–	–	–	37.9
	236.0	132.1	231.1	99.0	698.2

Company	Within 1 year US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m	Total US$m
As at 20 February 2012					
Gross outstanding claims	–	–	–	–	**–**
Financial liabilities under investment contracts	–	–	–	–	**–**
Creditors	3.0	–	–	–	**3.0**
	3.0	**–**	**–**	**–**	**3.0**
As at 20 February 2011					
Gross outstanding claims	143.9	95.9	167.9	72.0	479.7
Financial liabilities under investment contracts	–	–	–	–	–
Creditors	36.3	–	–	–	36.3
	180.2	95.9	167.9	72.0	516.0

15. Management of financial risk continued

Fair value estimations

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Listed quoted prices in active markets and external broker quotes which are publicly, readily and regularly available on an active market.

Level 2 – Inputs other than quoted prices included within level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the club's assets and liabilities measured at fair value at 20 February 2012 and at 20 February 2011.

Financial assets at fair value through income or expenditure:

Group	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 20 February 2012				
Shares and other variable-yield securities and units in unit trusts	144.7	20.3	0.5	**165.5**
Debt securities and other fixed-income securities	503.6	1.5	–	**505.1**
Forward currency contracts	–	–	–	**–**
	648.3	**21.8**	**0.5**	**670.6**
As at 20 February 2011				
Shares and other variable-yield securities and units in unit trusts	203.5	13.2	–	216.7
Debt securities and other fixed-income securities	444.4	–	–	444.4
Forward currency contracts	(1.8)	–	–	(1.8)
	646.1	13.2	–	659.3

Company	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
As at 20 February 2012				
Shares and other variable-yield securities and units in unit trusts	–	–	–	**–**
Debt securities and other fixed-income securities	–	–	–	**–**
Forward currency contracts	–	–	–	**–**
	–	**–**	**–**	**–**
As at 20 February 2011				
Shares and other variable-yield securities and units in unit trusts	3.0	–	–	3.0
Debt securities and other fixed-income securities	20.4	–	–	20.4
Forward currency contracts	–	–	–	–
	23.4	–	–	23.4

Capital management

The club maintains an efficient capital structure from the use of members' funds (reserves) along with the ability to make unbudgeted calls if required, consistent with the club's risk profile and the regulatory and market requirements of its business.

The club's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to satisfy the requirements of its members and meet regulatory requirements
- to maintain an 'A' rating with Standard and Poor's
- to manage exposures to movement in exchange rates
- to retain financial flexibility by maintaining strong liquidity

The club's principal regulators are the Bermuda Monetary Authority and the Financial Services Authority (FSA) and the club is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. The club manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. Under the FSA's ICA regime the club is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5% confidence level of solvency. Throughout the period the club complied with the FSA's capital requirements and the requirements in the other countries in which it operates.

Notes to the Financial Statements continued

16. Tangible assets

	Total		Computer software		Furniture, fixtures and fittings	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Group						
Book cost						
As at 21 February 2011	**13.8**	13.7	**7.7**	7.7	**6.1**	6.0
Additions	**–**	–	**–**	–	**–**	–
Currency fluctuation adjustments	**–**	0.1	**–**	–	**–**	0.1
Transfers	**–**	–	**–**	–	**–**	–
As at 20 February 2012	**13.8**	13.8	**7.7**	7.7	**6.1**	6.1
Accumulated depreciation						
As at 21 February 2011	**4.0**	2.9	**3.5**	2.8	**0.5**	0.1
Charge for the year	**1.2**	1.1	**0.8**	0.7	**0.4**	0.4
As at 20 February 2012	**5.2**	4.0	**4.3**	3.5	**0.9**	0.5
Net book value	**8.6**	9.8	**3.4**	4.2	**5.2**	5.6
Company						
Book cost						
As at 21 February 2011	**7.2**	7.2	**7.2**	7.2	**–**	–
Additions	**–**	–	**–**	–	**–**	–
Disposals	**(7.2)**	–	**(7.2)**	–	**–**	–
As at 20 February 2012	**–**	7.2	**–**	7.2	**–**	–
Accumulated depreciation						
As at 21 February 2011	**3.3**	2.6	**3.3**	2.6	**–**	–
Charge for the year	**–**	0.7		0.7	**–**	–
Disposals	**(3.3)**	–	**(3.3)**	–	**–**	–
As at 20 February 2012	**–**	3.3	**–**	3.3	**–**	–
Net book value	**–**	3.9	**–**	3.9	**–**	–

All classes combined. The assets in the holding company were transferred to its subsidiary, Standard Europe, on completion of the Part VII transfer on 30 December 2011.

17. Investment in group undertakings and participating interests

	Classes of shares held	Year end	Principal business	% holding Group	% holding Company
Standard Reinsurance (Bermuda) Limited, incorporated in Bermuda	Ordinary	20 Feb	Reinsurance	100	100
The Standard Steamship Owners' Protection and Indemnity Association (Europe) Limited, incorporated in the United Kingdom[1]	Note 1	20 Feb	Marine mutual	75	75
The Standard Steamship Owners' Protection and Indemnity Association (Asia) Limited, incorporated in Singapore	Ordinary	20 Feb	Marine mutual	100	20
Poseidon Insurance Company Pty Limited, incorporated in Australia[2]	Ordinary	30 Jun	Insurance	100	100
SRB Limited, incorporated in Bermuda	Ordinary	20 Feb	Broker	80	80
Taylor Hedge Fund, incorporated in Bermuda	Ordinary	31 Dec	Equity investment	95	–
Hydra Insurance Company Limited (Standard Cell), incorporated in Bermuda	Preferred	20 Feb	Reinsurance	100	100
Standard House Limited, incorporated in Bermuda	Ordinary	20 Feb	Property investment	100	–

1 75% of voting control, no participating interest. No minority interest is shown in the group accounts because the affairs of each class are managed on a unified basis throughout the group.
2 The results of Poseidon Insurance Company are included up to its most recent year end, 30 June 2011. Since that date there have been no material changes to its net assets.

All subsidiary undertakings are consolidated in the financial statements.

18. Debtors arising out of direct insurance operations

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Group										
Members	**59.5**	59.5	**58.0**	58.0	**1.1**	1.0	**0.2**	0.4	**0.2**	0.1
Intermediaries	**3.0**	0.2	**3.0**	0.2	**–**	–	**–**	–	**–**	–
Reinsurers	**3.3**	5.6	**2.8**	5.6	**0.5**	–	**–**	–	**–**	–
Debtors arising out of direct insurance operations	**65.8**	65.3	**63.8**	63.8	**1.6**	1.0	**0.2**	0.4	**0.2**	0.1
Company										
Members	**–**	26.4	**–**	26.2	**–**	0.2	**–**	–	**–**	–
Intermediaries	**–**	0.2	**–**	0.2	**–**	–	**–**	–	**–**	–
Reinsurers	**–**	5.5	**–**	5.5	**–**	–	**–**	–	**–**	–
Debtors arising out of direct insurance operations	**–**	32.1	**–**	31.9	**–**	0.2	**–**	–	**–**	–

19. Other debtors

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Other debtors	**20.3**	13.3	**15.9**	12.6	**4.3**	0.3	**0.1**	0.2	**–**	0.2

During the year the club made a recovery of $14.3m in consideration for the net amount expected to be recovered from the club's investment in the Taylor Hedge Fund. This potential recovery was included within other debtors at 20 February 2011 at a value of $9.7m.

20. Contingency reserve

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m	**2012 US$m**	2011 US$m
Group										
Balance at beginning of year	**349.5**	272.6	**296.8**	222.3	**19.8**	20.3	**22.3**	19.9	**10.6**	10.1
Excess/(shortfall) of income over expenditure for the year	**2.9**	76.9	**7.3**	74.5	**(7.4)**	(0.5)	**2.5**	2.4	**0.5**	0.5
Balance on contingency reserve at end of year	**352.4**	349.5	**304.1**	296.8	**12.4**	19.8	**24.8**	22.3	**11.1**	10.6
Company										
Balance at beginning of year	**30.0**	30.5	**28.7**	29.5	**1.3**	1.0	**–**	–	**–**	–
Part VII transfer	**(21.6)**	–	**(20.3)**	–	**(1.3)**	–	**–**	–	**–**	–
(Shortfall)/excess of income over expenditure for the year	**(3.1)**	(0.5)	**(3.1)**	(0.8)	**–**	0.3	**–**	–	**–**	–
Balance on contingency reserve at end of year	**5.3**	30.0	**5.3**	28.7	**–**	1.3	**–**	–	**–**	–

Notes to the Financial Statements continued

21. Other creditors including tax and social security

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Group										
Corporation tax	**2.4**	0.8	**1.4**	0.4	**0.1**	0.1	**0.6**	0.2	**0.3**	0.1
Trade creditors	**–**	1.7	**–**	–	**–**	–	**–**	1.7	**–**	–
Other creditors	**14.6**	5.3	**9.7**	5.3	**–**	–	**0.9**	–	**4.0**	–
Other creditors including tax and social security	**17.0**	7.8	**11.1**	5.7	**0.1**	0.1	**1.5**	1.9	**4.3**	0.1
Company										
Corporation tax	**–**	0.2	**–**	0.2	**–**	–	**–**	–	**–**	–
Trade creditors	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other creditors	**–**	2.6	**–**	2.6	**–**	–	**–**	–	**–**	–
Other creditors including tax and social security	**–**	2.8	**–**	2.8	**–**	–	**–**	–	**–**	–

22. Reconciliation of operating surplus to net cash flow from operating activities

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Excess/(shortfall) of income over expenditure before tax	**5.5**	77.6	**9.0**	74.4	**(7.3)**	(0.3)	**3.1**	2.8	**0.7**	0.7
Gains arising on realisation of investments	**(36.3)**	(27.6)	**(30.5)**	(25.6)	**(0.7)**	(0.6)	**(3.5)**	(1.0)	**(1.6)**	(0.4)
Losses arising on realisation of investments	**9.8**	14.4	**7.8**	13.1	**0.7**	0.5	**1.2**	0.7	**0.1**	0.1
Unrealised (gains)/losses on revaluation of investments	**(5.8)**	(42.0)	**(6.5)**	(39.3)	**(1.2)**	(0.6)	**1.1**	(1.8)	**0.8**	(0.3)
Depreciation	**1.2**	1.1	**1.1**	1.1	**–**	–	**0.1**	–	**–**	–
(Increase)/decrease in debtors	**(10.7)**	53.6	**13.5**	51.3	**(21.3)**	(2.8)	**(3.2)**	4.9	**0.3**	0.2
Increase in net claims provision	**63.2**	26.6	**43.1**	23.5	**20.0**	1.7	**0.1**	1.4	**–**	–
Increase/(decrease) in creditors	**20.2**	(47.5)	**(20.0)**	(46.0)	**28.7**	(0.2)	**7.7**	(1.4)	**3.8**	0.1
Other income/(charges) including value adjustments	**4.8**	(4.4)	**4.6**	(4.3)	**–**	–	**0.1**	–	**0.1**	(0.1)
Net cash flow from operating activities	**51.9**	51.8	**22.1**	48.2	**18.9**	(2.3)	**6.7**	5.6	**4.2**	0.3

23. Movement in opening and closing portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Net cash flow for the year	**69.2**	10.9	**44.5**	8.9	**11.6**	0.9	**5.7**	0.8	**7.4**	0.3
Portfolio investments	**(19.2)**	40.7	**(23.9)**	39.3	**7.2**	(3.2)	**0.8**	4.7	**(3.3)**	(0.1)
Movement arising from cash flows	**50.0**	51.6	**20.6**	48.2	**18.8**	(2.3)	**6.5**	5.5	**4.1**	0.2
Change in market value	**29.4**	58.5	**27.5**	54.7	**1.2**	0.8	**0.2**	2.1	**0.5**	0.9
Total movement in portfolio investments	**79.4**	110.1	**48.1**	102.9	**20.0**	(1.5)	**6.7**	7.6	**4.6**	1.1
Portfolio investments at 21 February 2011	**739.2**	629.1	**675.0**	572.1	**22.6**	24.1	**30.9**	23.3	**10.7**	9.6
Portfolio investments at 20 February 2012	**818.6**	739.2	**723.1**	675.0	**42.6**	22.6	**37.6**	30.9	**15.3**	10.7

24. Movements in cash and portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
At 21 February 2011										
Cash at bank and in hand	**51.7**	40.7	**45.6**	36.7	**2.9**	2.0	**2.2**	1.4	**1.0**	0.6
Investment property	**26.4**	24.9	**26.4**	24.9	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**216.7**	214.3	**202.1**	200.9	**1.8**	2.0	**9.3**	7.9	**3.5**	3.5
Debt securities and other fixed-income securities	**444.4**	349.2	**400.9**	309.6	**17.9**	20.1	**19.4**	14.0	**6.2**	5.5
Total balance at 21 February 2011	**739.2**	629.1	**675.0**	572.1	**22.6**	24.1	**30.9**	23.3	**10.7**	9.6
Cash flow										
Cash at bank and in hand	**69.2**	10.9	**44.5**	8.9	**11.6**	0.9	**5.7**	0.8	**7.4**	0.3
Investment property additions	**0.2**	–	**0.2**	–	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**(50.9)**	(38.5)	**(45.5)**	(37.4)	**(0.9)**	(0.4)	**(2.2)**	(0.3)	**(2.3)**	(0.4)
Debt securities and other fixed-income securities	**31.5**	79.2	**21.4**	76.7	**8.1**	(2.8)	**3.0**	5.0	**(1.0)**	0.3
Cash flow for year	**50.0**	51.6	**20.6**	48.2	**18.8**	(2.3)	**6.5**	5.5	**4.1**	0.2
Changes in market value										
Cash at bank and in hand	**(0.1)**	0.1	**–**	–	**–**	–	**–**	–	**(0.1)**	0.1
Investment property (revalued)	**0.6**	1.5	**0.6**	1.5	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**(0.3)**	40.9	**0.6**	38.6	**(0.1)**	0.2	**(0.2)**	1.7	**(0.6)**	0.4
Debt securities and other fixed-income securities	**29.2**	16.0	**26.3**	14.6	**1.3**	0.6	**0.4**	0.4	**1.2**	0.4
Changes in market value for year	**29.4**	58.5	**27.5**	54.7	**1.2**	0.8	**0.2**	2.1	**0.5**	0.9
At 20 February 2012										
Cash at bank and in hand	**120.8**	51.7	**90.1**	45.6	**14.5**	2.9	**7.9**	2.2	**8.3**	1.0
Investment property	**27.2**	26.4	**27.2**	26.4	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and unit trusts	**165.5**	216.7	**157.2**	202.1	**0.8**	1.8	**6.9**	9.3	**0.6**	3.5
Debt securities and other fixed-income securities	**505.1**	444.4	**448.6**	400.9	**27.3**	17.9	**22.8**	19.4	**6.4**	6.2
Total balance at 20 February 2012	**818.6**	739.2	**723.1**	675.0	**42.6**	22.6	**37.6**	30.9	**15.3**	10.7

25. Movement in prior years' provision for claims outstanding

	Total		Class 1 – P&I		Class 2 – Defence		Class 3 – London		Class 4 – War	
	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m	2012 US$m	2011 US$m
Improvement/(deterioration) in respect of prior years	**2.7**	24.6	**3.0**	24.4	**(1.0)**	(0.5)	**0.7**	0.7	**–**	–

Notes to the Financial Statements continued

26. Designated reserves

All members of the International Group of P&I Clubs have entered into arrangements whereby each club has provided security in favour of the The Bermuda Trust Company. The security can only be drawn upon in the event that a club fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The club has lodged a letter of credit in the amount of $17.3m (2011: $13.0m) in relation to its participation in the arrangement. No calls have been made upon the facility.

27. Letters of credit, bail bonds and guarantees

In the normal course of business, the club has provided letters of credit and guarantees on behalf of its members. These are secured by investments lodged with the club amounting to $44m (2011: $54m).

28. Related party transactions

The club, which is limited by guarantee, has no share capital and is controlled by the members who are also its insureds. All members enter into insurance contracts negotiated with the club's managers on arm's length terms. These transactions are therefore with related parties and are the only transactions between the club and the members. The aggregate of these transaction is disclosed in these financial statements.

All the directors (except two, who are directors and shareholders of Charles Taylor Consulting plc, the ultimate holding company of the club's managers, Charles Taylor & Co (Bermuda) and two Bermuda resident directors with no membership interests) are representatives or agents of member companies and other than the insurance and membership interests of the directors' companies, the directors have no financial interests in the club. The club paid management fees to the managers for the year of $38.4m (2011: $32.0).

29. Rates of exchange

	2012	2011
The following rates of exchange were applicable to US$1 at 20 February 2012 (2011)		
Australian dollars	**0.93**	1.00
Bermudan dollars	**1.00**	1.00
Canadian dollars	**1.00**	0.99
Euro	**0.76**	0.74
Japanese yen	**79.36**	83.39
Singapore dollars	**1.26**	1.28
Swiss francs	**0.92**	0.97
UK sterling	**0.63**	0.63

Appendix I (Unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I Summary

	Appendix reference	Funds available and estimated future supplementary calls US$m	Estimated net claims and forecast of unreported claims US$m
At 20 February 2012			
Total closed policy years	III	**231.9**	**231.9**
Open policy years			
2011/12	II	154.0	154.0
2010/11	II	97.2	97.2
Total of open policy years		**251.2**	**251.2**
Reserves			
Contingency reserve	III	304.1	–
Statutory reserve		0.2	–
Total reserves		**304.3**	**–**
Funds available for outstanding and unreported claims		**787.4**	**483.1**

These appendices should be read in conjunction with the notes on the preceding pages.

Appendix II (Unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I open policy years

		2011 One year from inception US$m	2010 Two years from inception US$m	2009 Three years from inception US$m
At 20 February 2012				
Calls and premiums		265.5	254.2	239.6
Less: Claims, reinsurance premiums, administration expenses and tax		(140.6)	(173.2)	(155.1)
		124.9	81.0	84.5
Investment income to date		38.2	58.6	60.7
Funds available	**A**	**163.1**	**139.6**	**145.2**
Estimated known outstanding claims and forecast of unreported claims		373.1	146.1	95.3
Estimated reinsurance recoveries		(219.1)	(48.9)	(38.8)
	B	**154.0**	**97.2**	**56.5**
Anticipated surplus at closure	**A-B**	9.1	42.4	–
Surplus on closure of 2009/10 year				88.7
Transferred to contingency reserve at 20 February 2011			(62.1)	(75.9)
Transferred (to)/from contingency reserve at 20 February 2012		(9.1)	19.7	(12.8)
		–	–	–
Product of a 10% supplementary call		**19.7**	**19.0**	**17.9**

Notes

Estimated known outstanding claims and the forecast of unreported claims of open years (excluding the 2009/10 policy year) include the club's share of other clubs' pool claims amounting to $50.4m.

Estimated reinsurance recoveries show the reinsurance recoveries to be made on reinsurance contracts net of provision for doubtful recoveries, and include anticipated pool recoveries of $108.8m, recoveries from Group excess of loss reinsurers of $125.8m, and anticipated recoveries from other reinsurers of $33.4m.

Investment income

All investment income received in the year has been allocated to the 2011/12 policy year.

Appendix III (Unaudited)

Funds available for outstanding and unreported claims

Class 1 – P&I closed policy years and contingency reserve

	Closed policy years		Contingency reserve	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
At 20 February 2012				
Balance available at 20 February 2011 (2010)	**224.0**	213.2	**296.8**	222.3
Transfers on closure of 2009/10 (2008/09) policy year	**56.5**	50.0	**12.8**	13.4
Premium adjustment	**–**	–	**0.8**	0.2
Claims paid net of reinsurance recoveries	**(49.5)**	(37.5)	**–**	–
	231.0	225.7	**310.4**	235.9
Transfer of anticipated (deficit)/surplus on open years	**–**	–	**(10.6)**	62.8
Other charges including value adjustments			**4.6**	(4.3)
Minority interest	**–**	–	**0.6**	0.7
Deterioration/(improvement) of claims in closed policy years	**0.9**	(1.8)	**(0.9)**	1.7
Balance available at 20 February 2012 (2011)	**231.9**	223.9	**304.1**	296.8

Closed policy years

The balance available for outstanding claims of closed policy years (including the 2009/10 year which was closed at the club's meeting on 10 May 2012) includes a provision for incurred but not reported claims (IBNR) of $39.5m (2011: $46.5m) and is shown net of pool recoveries of $39.5m (2011: $7.5m) and other non-Group reinsurance recoveries which amount to $27.3m (2011: $26.9m). The balance available including IBNR includes $38.8m (2011: $33.7m) in respect of the club's share of other clubs' outstanding pool claims.

Notice of Annual General Meeting

The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited ('the company')
Registered no: 1837

Notice is hereby given that the 41st Annual General Meeting of the company will be held on Friday 12 October 2012 at 1pm ('the meeting') at the Shilla Hotel, 202 Jangchung-dong 2-Ga, Jung-gu Seoul 100-856, Korea for the purpose of considering and, if thought fit, passing the following as ordinary resolutions.

Reports and financial statements
1. THAT the reports of the directors and auditors and the audited financial statements of the company for the year ended 20 February 2012 be received and adopted.

Re-election of directors appointed since the last AGM
2. THAT Gunther Jaegers be re-elected as a director of the company.
3. THAT David Marock be re-elected as a director of the company.
4. THAT Daniel Ofer be re-elected as a director of the company.

Annual re-election of directors
5. THAT Neçdet Askoy be re-elected as a director of the company.
6. THAT Cesare d'Amico be re-elected as a director of the company.
7. THAT Giulio Bozzini be re-elected as a director of the company.
8. THAT Paolo Clerici be re-elected as a director of the company.
9. THAT Jnanedra Das be re-elected as a director of the company.
10. THAT Erik Johnsen be re-elected as a director of the company.
11. THAT David Koo be re-elected as a director of the company.
12. THAT JB Rae-Smith be re-elected a director of the company.

Appointment of auditors
13. THAT PricewaterhouseCoopers LLP be reappointed as auditors, and that the directors be authorised to fix their remuneration.

Date: 10 May 2012

By order of the board,

Charles Taylor & Co (Bermuda)
Secretary

Registered Office:
Burnaby Building
16 Burnaby Street
Hamilton
Bermuda

NOTES
1. A member of the company entitled to attend, speak and vote at the above meeting is entitled to appoint a proxy to attend, speak and vote on his/her behalf. The proxy need not be a member of the company.
2. The appointment of a proxy will not prevent a member from subsequently attending, speaking and voting at the meeting in person. Details of how to appoint the chairman of the meeting or another person as your proxy are set out in the notes to the Form of Proxy. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the chairman) and give your instructions directly to them.
3. For the instrument appointing a proxy to be effective, you must complete the enclosed Form of Proxy and ensure that the Form of Proxy, together with any power of attorney or other authority under which it is executed (or a notarially certified copy of the same), is deposited with the Secretary of the company, Charles Taylor & Co (Bermuda), Burnaby Building, 16 Burnaby Street, PO Box 1743, Hamilton, Bermuda HMGX, or scanned and emailed to p&i.bermuda@ctcplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
4. A corporate member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same vote.

Form of Proxy

The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited ('the company')

Registered no: 1837

41st Annual General Meeting
12 October 2012 at 1pm ('the meeting')

I (Block Capitals)……………………………………………………….., a member of the above-named company, hereby appoint the chairman of the meeting, or ……………………………………………………… as my proxy to vote for me on my behalf at the Annual General Meeting of the company to be held at the Shilla Hotel, 202 Jangchung-dong 2-Ga, Jung-gu Seoul 100-856, Korea, on Friday 12 October 2012 at 1pm, and at any adjournment thereof.

Signature ……………………………………………………….

Dated ……………………………………………………… 2012

Please indicate with an X in the spaces below how you wish your votes to be cast.

ORDINARY RESOLUTIONS	FOR	AGAINST
1. THAT the reports of the directors and auditors and the audited financial statements of the company for the year ended 20 February 2012 be received and adopted.		
2 THAT Gunther Jaegers be re-elected as a director of the company.		
3. THAT David Marock be re-elected as a director of the company.		
4. THAT Daniel Ofer be re-elected as a director of the company.		
5. THAT Neçdet Askoy be re-elected as a director of the company.		
6. THAT Cesare d'Amico be re-elected as a director of the company.		
7. THAT Giulio Bozzini be re-elected as a director of the company.		
8. THAT Paolo Clerici be re-elected as a director of the company.		
9. THAT Jnanedra Das be re-elected as a director of the company.		
10. THAT Erik Johnsen be re-elected as a director of the company.		
11. THAT David Koo be re-elected as a director of the company.		
12. THAT JB Rae-Smith be re-elected a director of the company.		
13. THAT PricewaterhouseCoopers LLP be reappointed as auditors, and that the directors be authorised to fix their remuneration.		

NOTES

1. If you wish any person other than the chairman to act as your proxy, please insert the name of your proxy in the space provided. If no name is inserted you will be deemed to have appointed the chairman of the meeting. A proxy need not be a member.
2. Please indicate with an x in the appropriate spaces how you wish your vote to be cast in respect of each of the resolutions. On receipt of this form duly signed but without any specific direction on how you wish your votes to be cast, the proxy will vote in favour of the resolutions.
3. In the case of a corporation, this form must be signed under its common seal or be signed by an authorised officer or attorney duly authorised in that behalf, the signatory should state in the line below his name, his office (e.g. company secretary, director).
4. To be valid at the Annual General Meeting referred to, this form must be completed, signed and dates. It should then be deposited with the Secretary of the company, Charles Taylor & Co (Bermuda), Burnaby Building, 16 Burnaby Street, PO Box 1743, Hamilton, Bermuda HMGX, or scanned and emailed to p&i.bermuda@ctcplc.com not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.
5. Completion and return of this form will not prevent you from attending and voting in person if you wish. Copies of the form can be downloaded from www.standard-club.com.

Notes

Notes

Managers and Officers

Managers
Charles Taylor & Co (Bermuda)

Secretary
Charles Taylor & Co (Bermuda)

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